

ICRIERnews



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ICRIER in Transition

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Dr. I. G. Patel passed away on July 17, 2005 in New York after a distinguished career in Government and Academia. Dr. Patel was Chairman since August 30, 1997 and helped lead the resurgence of ICRIER as a leading think tank in India.

Dr. Isher Judge Ahluwalia was elected Chairperson by the Governing Body of ICRIER at its meeting on August 8, 2005.

Dr. Rajiv Kumar is the new Director & Chief Executive of ICRIER w.e.f. February 1, 2006.

Letter from the Director

Dear Reader,

A brief account of the activities and events that took place at ICRIER during July-December 2005 is presented below.

ICRIER organised a press briefing on the release of the ICRIER-Department of Consumer Affairs, (Ministry of Consumer Affairs, Food and Public Distribution, Government of India) Report on 'FDI in Retail Sector: India' on July 14, 2005. The preliminary findings of the report were presented before the government and other stakeholders at a seminar organised by ICRIER in New Delhi on November 22, 2004. The seminar was chaired by Mr. L. Mansingh, Secretary, Department of Consumer Affairs.



On October 6, 2005 ICRIER jointly organised along with Seoul Forum for International Affairs, Korea, the fifth India-Korea Dialogue in Seoul. The delegation from the Indian side consisted of Mr. Shashank, former Foreign Secretary, MEA, Dr. Amita Batra, Sr. Fellow ICRIER, Dr. Manoj Joshi, Editor (Views), *Hindustan Times*, and Mr. Rajive Kaul, Chairman, NICCO Corporation Ltd.

Our research work on WTO related issues has continuously been running at a consistently good pace. ICRIER organised an interactive seminar on November 14, 2005 jointly with the Ministry of Commerce and the Sir Ratan Tata Trust (SRTT) on 'Important Issues for India's Negotiations in WTO' with the objective of facilitating discussion on important negotiating issues before the Hong Kong Ministerial Meet of WTO to be held in December. Honorable Minister of Commerce, Mr. Kamal Nath was the Chief Guest for the occasion.

Honorable Commerce Minister, Mr. Kamal Nath after his visit to Hong Kong, engaged in a Q&A session with a select group of researchers. The event was held at ICRIER on December 26, 2005.

I have spent three fulfilling years at the helm of ICRIER and as I leave to take charge as Principal Adviser, Planning Commission, I wish ICRIER all the success in the future.

With best wishes,

Arvind Virmani
Arvind Virmani

a forum for sharing information

Conferences, Seminars, Workshops

China's Socialist Market Economy Lessons of Success

December 15, 2005



Dr. Arvind Virmani, Director & Chief Executive, ICRIER is delivering the seminar paper on China's Socialist Market Economy: Lessons of Success.

ICRIER organized a seminar on 'China's Socialist Market Economy: Lessons of Success' by Dr. Arvind Virmani on December 15, 2005.

In the late 1930s Oskar Lange put forward the idea of 'Market Socialism', an economy in which assets (means of production) were owned socially (by the communist party or State), but which mimicked the supply-demand price adjustment of the competitive market economy. Aba Lerner, Lange and others then debated this issue during the 1930s. The key element that is common to 'market socialism' à la Lange and Lerner and 'Socialism' (à la Lenin and Stalin) is socialist (i.e. party) ownership and (managerial) control of assets. The key difference is market based allocations versus centrally planned allocations.

In China, the 'market' element has expanded gradually since the start of the agricultural reforms in 1979 and the introduction of Urban reforms in 1984. In 1992 China publicly stated that its goal is a "socialist market economy with Chinese Characteristics." Though China has successfully expanded the scope of the market, 'socialist' (communist) control of factors remains very important. An understanding of these elements is essential to an understanding of the economic performance of China. The paper starts by giving a stylised version of China's economy in terms of the mix of socialist and market elements. This leads to an explanation of the growth performance of the Chinese economy and appropriate lessons for other countries, particularly non-socialist ones.

The primary 'market' economy is in products (goods and non-infrastructure services) where even CPC controlled enterprises compete to maximise growth, as in a private corporate economy. The other market elements are external capital (into foreign invested enterprises) and external trade. Exports and FDI have played such an important role in China's economy that its growth has been characterised as 'export-led growth,' and could since 1990 be characterised as 'FDI-export led growth.' The extent to which import trade is now free is not entirely clear, though on balance this could be put

into the market category. There is also a competitive fringe of individual capitalists/private capital that operates in export production.

The socialist planning system still operates, however, in factor markets (land, labour, capital) and infrastructure and the pricing of these inputs is used to provide (indirect) subsidies to foreign investors and domestic exporters. Cities/provinces can and do price land to any buyer at any price. The labour responsibility system determines where a person can work legally and where he cannot. The banking system has evolved little from a government department where loans are decided on the basis of provincial/national objectives and ability to repay is irrelevant (variable cost of capital). Infrastructure pricing and supply (particularly to foreign invested enterprises) is similarly decided on the basis of national/ provincial/ city objectives and can vary with enterprise. This is also true to some extent for the output of the State Owned Enterprises (SOEs) which remain subject to central department (their bosses) orders and directions.

In moving from the 'Socialist' to the 'Socialist Market' Economy, China has borrowed aspects from the 'Nationalist Market Economies' of developing Japan, S. Korea and Singapore. The primary objective of the latter governments was to catch-up with the advanced countries through fast growth of average income. They therefore developed a national consensus to maximise GDP growth. The whole nation was mobilised to achieve this goal. The simplicity of this objective (growth, investment, production) made it much easier to decentralise it and ensure accountability at every level including that of the private corporate sector (Zaibatsu, Chaebol). Democratic accountability was however stronger in these countries, so that much greater attention had to be paid to democratisation of the gains from growth, and the welfare of all citizens.

Both types of economies contrast with 'democratic market' economies like India that are driven primarily by democratic concerns in which the multidimensional nature of welfare maps into multiple, often contradictory, objectives. The means adopted to achieve one objective often contradict those required to achieve another resulting in cross-cutting actions. Multiple objectives lead to diffusion of accountability and provide liberal scope for pursuing one's personal goals (agency problems) as failure to achieve any one objective can always be blamed on the need to ensure another.

Drawing on the Chinese experience, Dr Virmani recommended certain lessons for other countries namely - focus on growth orientation, modification of existing institutions in accordance with development objectives, promotion of complementary trade and FDI, adoption of flexible labour laws, rules, procedures to attract labour intensive export oriented FDI, creation of market structure that promotes competition rather than monopoly and emphasis on good governance.

Dr. Abid Hussain, Former Ambassador to USA chaired the seminar.

Emerging Global Scenario Economic Perspective

December 10, 2005

ICRIER organized a seminar on 'Emerging Global Scenario: Economic Perspective' by Dr. Arvind Virmani on December 10, 2005.

The fast growth of Japan till the mid-1980s gave birth to several books on the Pacific Century (Gibert (1988), McCord (1991), Gibney (1993)) and the Asia-Pacific Century (Sutter (1992), Cronin(1992)). This talk gradually disappeared after the bursting of the Japanese bubble. The talk revived with the phenomenal growth of the Tigers (Manning and Stern(1994), Lingle (1995), Mahbubani(1997)) but was soon overcome by the Asian Crises (Emerson (1998)). Virmani (1999a,b) showed that India (the elephant) was among the ten fastest growing economies of the World since 1980 and projected that in the next decade its growth rate would accelerate above that of the Tigers and reach the top three. It also asserted that though China's past growth had been overestimated by about 2% it (the dragon) would remain the fastest growing economy in the world during the first decade of the 21st century.

Krauthammer (1990/91) had heralded the arrival of 'The Unipolar Moment' and set off debate on its many ramifications. The reality of the unipolar world returned to center-stage after the Asian crisis even though some questioned whether the unipolar moment had passed (Nye(1999), Huntington(1999)). Since 9/11 the USA has asserted its primacy and the unipolar nature of the world has been re-asserted. There is, however, a variety of views on how long the unipolar world will last. Bergsten (2004) and Virmani (2004) have written about the possibility of the unipolar world order of the past half century converting into a bipolar or tripolar one.

State power is the "extent that (one) effects others more than they affect [one]"[Waltz (1979)]. It is therefore a "combination of its capacity to resist the unwelcome influence of others and conversely to influence others to behave as it wants them to." With increasing globalisation, democratisation and inter-dependence, the form in which such power is expressed is likely to change over this century. However, history is unlikely to end (Fukuyama)



Dr. Arvind Virmani, Director & Chief Executive, ICRIER is delivering the seminar on 'Emerging Global Scenario: Economic Perspective'.

and old ways of using power may not fade away that quickly. The powerful will also find new ways to express their power.

In the presentation Dr. Virmani argues that the global economy is evolving in a direction that will result in a tripolar world by the middle of the 21st century. Thus the 21st century will be a 'Tripolar Century' with two of the poles in Asia and one on the other side of the Pacific. So ironically it could end up as partly a Pacific, partly an Asia-Pacific and partly an Asian century. This is based largely on an economic view of power a la Kennedy (1988). He defines an index of Power Potential to measure economic power and shows how this index captures the current unipolar world. He then outlines the evolution of global power, first into bipolar and then into a tripolar world based on his economic projections. The reasons why the European Union may not become a fourth pole was taken up in the discussion.

Mr. K. Subramanyam, Chairman, Task Force chaired the seminar.

VIP²: A Simple Measure of a Nation's (Natural) Global Power

November 29, 2005

A seminar on 'VIP²: A Simple Measure of a Nation's (Natural) Global Power' by Dr. Arvind Virmani organized by ICRIER on November 29, 2005.

The USA is often referred to as the most powerful 'Nation on Earth', particularly since the collapse of the USSR in 1990. It is well known that the US economy is the largest in the world. But does the size of an economy measure a nation's power in a global context? During the cold war between the US and NATO and the USSR and Soviet Bloc the world was bi-polar, that is, the two

countries USA and USSR were recognized to be the two most powerful in the world of the time. The most visible part of their competition was in space, nuclear, defense and other technology. The possession of advanced military equipment such as ICBMs, submarines, aircraft carriers, bombers and fighters was also an important determination of the relative power of these two nations. Since then complex models have been built to define and measure a nation's global power. Economic and technological factors play a major role in these models [see eg. Tellis et al (2000)]. Other factors are natural

resources, education & skills and investment in R&D and technology development.

State power is the "extent that (one) effects others more than they affect [one]" [Waltz (1979)]. It is therefore a "combination of its capacity to resist the unwelcome influence of others and conversely to influence others to behave as it wants them to." International relations experts have been divided on the relative importance of economic strength and military might in the global power of a nation. We resolve this conflict by decomposing national power into two elements: (a) 'The power potential' of a country, which depends on economic strength and general technological capability, and (b) military capability. This includes defense and strategic equipment and specific technologies needed for attaining military superiority. Together these define the actual power of a country. International ambition and determination, the 'Will to power' play a role in transforming the 'power potential' into 'actual power.'

Virmani (2004, 2005) proposed a simple index of 'power potential'. In this paper we present the index (christened VIP^2), discuss its rationale and calculate the value of this index for all the medium and large countries in the world. We also define an index of actual power (VIP) based on VIP^2 , which requires a separate measure of military capability.



Dr. Arvind Virmani, Director & Chief Executive, ICRIER is delivering the seminar on 'VIP²: Simple Measure of a Nation's (Natural) Global Power'. On his right is Dr. Sanjaya Baru, Media Adviser to Prime Minister.

The paper starts with a discussion on the economic basis of national power. It then defines the VIP^2 (the index of power potential). This index is then calculated for about 110 countries. The paper also analyses the implications for permanent, veto bearing membership of the UN Security Council.

Dr. Sanjaya Baru, Media Adviser to the Prime Minister chaired the seminar.

Important Issues for India's Negotiations in WTO

November 14, 2005



From L to R: Dr. Arvind Virmani, Director & Chief Executive, ICRIER, Prof. B. K. Zutshi, Former Indian Ambassador to GATT, Dr. Isher Judge Ahluwalia, Chairperson, ICRIER, Mr. Kamal Nath, Hon'ble Commerce Minister, Ministry of Commerce, Prof. Anwarul Hoda, Member, Planning Commission.

An interactive seminar was organized by ICRIER on November 14, 2005 jointly with the Ministry of Commerce and the Sir Ratan Tata Trust (SRTT) on 'Important Issues for India's Negotiations in WTO'. The objective of the seminar was to facilitate discussion on

important negotiating issues before the Hong Kong Ministerial Meet of WTO to be held in December. Honorable Minister of Commerce, Mr. Kamal Nath was the Chief Guest for the occasion.

With a view to undertake a dialogue with the Minister of Commerce and other relevant ministries, an in-depth interaction on key issues relevant for the current round of negotiations was carried out on Agriculture and Non Agriculture Market Access, Market Access Negotiations in Services and distribution services in particular India's retail sector. The session on Negotiations was chaired by Dr. Isher Judge Ahluwalia, Chairperson, ICRIER. The seminar also discussed and disseminated some of the ICRIER research on key WTO related issues including Impact of Tariff Reforms, Cross Modal and Cross Sectoral Issues in Services, Trade Facilitation, Anti-Dumping and Subsidies in Services. This session was chaired by Mr. S. N. Menon, Commerce Secretary.

The Commerce Minister started by stating that the awareness level of developing countries is much higher than the Uruguay Round with developing countries being more prepared and voluntarily engaging in the negotiations.

On Agriculture, Commerce Minister opined that it still remains the most distorted sector. It should be asserted that domestic support and subsidies areas are also an obstacle, since they are illegitimate instruments in a rule-based, fair and equitable multilateral system, and it would be better, the sooner they are dismantled. India is asking for a substantial cut in trade distorting domestic subsidies and eventual elimination of export subsidies. Tariffs remain the only instrument of protection and for safeguarding food and livelihood security and rural development. Appropriate policy space must be intrinsic to any agreement at Hong Kong and beyond. The discussion pointed out that India should be aggressive in Agricultural negotiations and tie up tariff reduction to subsidy reduction in developed countries. Mr. Anwarul Hoda, Member Planning Commission mentioned capping of high tariff lines is extremely important.

In NAMA, the Minister pointed out that India is seeking significant market access through reduction in tariff peaks and tariff escalation and reduction in non tariff barriers in the developed countries on products of our exports interest. As India has already undertaken unilateral tariff cuts and is planning to bring the existing tariff to the ASEAN level, its bargaining strength in NAMA negotiations is quite high. There is a misconception that only tariffs are an obstacle to market access; it is the non-tariff barriers which are gaining in significance.

Regarding Services, the Minister was of the view that India needs to open in some sectors to gain meaningful market access in Services in developed countries. Unfortunately, there is not much improvement in areas of interest to India viz. Movement of Natural Persons (Mode 4) and Cross Border Supply (Mode 1) in the offers, but discussions in the Friends Group co-chaired by India have been positive, and better results are expected. Mr. B. K. Zutshi, former Ambassador to GATT, pointed out



From L to R: Dr. Rajiv Ahuja, World Bank, Mr. S. N. Menon, Commerce Secretary, Ministry of Commerce and Dr. Arvind Virmani, Director & Chief Executive, ICRIER.

that India has the option and strategy for market access negotiations in services to leverage its market size and its reform process for its engagement in the services negotiations to secure access in sectors and modes of export interest to it in the members' markets. With the submission of the revised offer, we have started moving in the right direction. Mr. Kamal Nath added that coupled with market access (Mode 4) commitments, it is equally important to have disciplines on domestic regulations.

On the future strategy for liberalization in the retail services with respect to distribution services, it was emphasized that India has two alternative approaches: multilateral liberalization followed by unilateral liberalization (which improves the bargaining position but is has its risks), or vice versa. The Minister added that investment was needed for back-ended logistic management and foreign investment was required to supplement domestic investment.

Energy Security: The Future of Oil & Gas in India October 25, 2005



From L to R: Dr. T. L. Shankar, Consultant, Administrative Staff College of India, Hyderabad, Ms. Sudha Mahalingam, Senior Fellow, Nehru Memorial Museum & Library, Mr. Nitin Desai, Honorary Professor, ICRIER, Mr. Talmiz Ahmad, Additional Secretary, Ministry of Petroleum & Natural Gas and Dr. Arvind Virmani, Director & Chief Executive, ICRIER.

ICRIER organized a seminar on 'Energy Security: The Future of Oil & Gas in India' on October 25, 2005 to review India's energy prospects in the light of mounting oil prices, rising demand and uncertain supplies, and to discuss policy options needed to take care of India's energy security.

Seminar was chaired by Mr. Nitin Desai, Honorary Professor, ICRIER (Former Under Secretary-General of the UN). It was attended by academicians, scholars, experts, ministry representatives and media.

The panelists included Mr. Talmiz Ahmad, Additional Secretary, Ministry of Petroleum & Natural Gas, Ms. Sudha Mahalingam, Senior Fellow, Nehru Memorial Museum & Library and Dr. T. L. Shankar, Consultant, Administrative Staff College of India, Hyderabad.

Sharing the government's perspective, Mr. Talmiz Ahmad emphasised that energy security is an integral part of

national security. Oil and gas continue to be dominant sources of energy but the present oil and gas scenario is characterised by distorted, non-market and irrational features. With a 70% gap between domestic supply and demand for oil signifying India's dependency on oil imports, he cautioned that India has to ensure existing supplies while at the same time diversify to foreign sources. He drew attention to the efforts in the Caspian Sea, Latin America and Africa as examples. At the same time domestic efforts at exploration and production must also be strengthened. For gas, he maintained that pipelines to bring gas from neighbouring countries are important. Multiple pipelines do not compete with each other as all the supplies will be needed. Roundtables to bring consumers and producers together, setting up a World Energy Forum in the UN, were among the global options mentioned. He posed the question about what proportion of domestic demand should be covered by equity oil from concessions, given the Forex reserves and BOP status of India.

Ms. Sudha Mahalingam emphasised demand-side management as an integral part of managing energy security. But even with aggressive demand-side management measures, especially in the transportation sector, India will continue to be dependent on imported hydrocarbons, especially from the Middle East Persian Gulf region. Hedging, overseas oil equity, and long-term contracts could address price volatility to some extent. Gas is a regional resource. Pricing is a key issue in gas imports whether through pipelines or LNG since downstream industries like power and fertilizer cannot absorb high prices. Dual pricing of gas in domestic markets will have to continue. As far as possible, future capacities in power generation should be fuelled by domestic gas as well as hydel sources. India should also consider importing electricity from Central Asia, especially Kyrgyzstan and Tajikistan which have abundant hydel capacity.

Dr. Shankar started out by saying that while there have been various ideas and efforts on energy security, there has not been much of an effort to anchor them together. For this he laid great stress on coordination of the main elements of the energy chain. He also pointed out that while oil may be used for transport, he was not very sure about the usefulness and sustainability of using gas for producing electricity. Additionally, price of electricity in India has hit the international standards and there is not much room for further price increase. The key issue to energy security is wide scale availability of cheap electricity. It is technically feasible to produce electricity for less than Rs 2 per unit using domestic coal. This is one option to reduce India's import dependence on gas. He also focused on energy efficiency improvements and substitution of bio fuels which would reduce import requirements of oil.

The discussion that followed focused on the geopolitical risks of relying on imports from politically volatile regions and the need to exploit more fully indigenous coal resources, using new technologies like underground gasification and coal-bed methanation.

Concluding the discussion Mr. Nitin Desai stated that energy security is more than tying up sources of oil supply. It must look beyond to demand management and alternatives to oil. This requires coordination. But coordination can become a bureaucratic routine of meetings unless it has a purpose. This could be demand assessment and management and setting priorities for long-term technology options. The sectoral bodies should be left free to undertake supply planning on the basis of this assessment and priority setting.

Policy Research Networking: Consultations on Trade and Industry

August 17, 2005

A consultation seminar was coordinated by ICRIER and Indian Institute of Management Bangalore (IIMB) and supported by Ministry of Finance on August 17, 2005 to mark the final phase of the Asian Development Bank's Technical Assistance Project—'Policy Research Networking to Strengthen Policy Reforms' under the thematic area of 'Trade and Industry'.

The seminar, comprised two sessions and was organized in collaboration with ADB, Ministry of Finance and IIMB with the key objective of networking with policy makers, opinion makers and other stakeholders so as to discuss and analyse policy recommendations and related road maps that have emerged in the researched policy papers, and the dissemination for the same.

For the first session on 'Trade Policy', ICRIER was the hub institute. The policy papers coordinated by ICRIER



From L to R: Mr. Narhari Rao, Principal Economist, Asian Development Bank, Dr. Arvind Virmani, Director & Chief Executive, ICRIER and Dr. Chiranjib Sen, Professor, Indian Institute of Management Bangalore.

under this project included 'Globalisation, Poverty and Inequality', 'Critical Issues in Services-led Growth' and 'Non-tariff and other Barriers to Trade'. The second session on 'Industrial Performance' was coordinated by IIMB. The policy papers under this theme included 'Recent Developments in the Regulatory Framework for the Private Sector', 'Issues Regarding Privatisation and Disinvestment' and 'Role of Small Scale Industries in the Age of Liberalisation'.

The seminar was well attended by academicians, scholars, experts, ministry representatives and media. First session was chaired by Dr. Arvind Virmani, Director & Chief Executive, ICRIER and second session was chaired by Prof. K. L. Krishna, Former Senior Consultant, ICRIER.

Public Lectures

Financial Stability During Periods of High Growth and Low Inflation: The Role of the IMF

December 29, 2005

ICRIER organized a lecture on 'Preserving Financial Stability during periods of high growth and low Inflation-The Role of the IMF' by IMF Executive Director Mr. Willy Kiekens.

With low inflation and increasingly independent and credible central banks, monetary stability has been established. Nevertheless, with the liberalization of financial sectors and international capital flows, asset price volatility and the incidence of financial crises have risen significantly, both in advanced economies and in emerging markets.

How the changes in the monetary and financial regimes during the last couple of decades explain the emergence of financial imbalances in the global economy and have increased the threat to financial stability, notwithstanding prudent monetary policies was the main subject of a talk delivered by Mr. Kiekens.

Mr. Kiekens emphasized on how, in the aftermath of the Asian Crisis, (i) the IMF has adjusted its surveillance to better diagnose the build up of excessive risks and imbalances; and (ii) the IMF has advised fiscal, monetary and prudential supervisory authorities in preserving financial stability while liberalizing the financial sector and international capital flows.

He talked about three basic questions: What are the lessons and new insights for safeguarding financial stability? How the funds adjusted its activities and policies to contribute more successfully to safe guard financial stability? And finally how the funds assess the challenges India faces in preserving financial stability?

He advised that the way the government can influence markets is no longer through direct intervention but with policy changes that are sufficiently credible to anchor, or alter the expectations that affect market prices. Financial stability depends on sound risk management decisions by managers of financial institutions and corporations. Making sure that the governance structures promote such sound decisions is an integral part of safeguarding financial stability.



Mr. Willy Kiekens, Executive Director, IMF is delivering the lecture. On his right is Mr. T. N. Ninan, Editor, Business Standard.

Mr. Kiekens talked about how the IMF has indeed changed dramatically during the last ten years in response to the recurrent banking and capital account crises. These changes can be divided into three categories: (i) improving transparency and timely information of markets, (ii) better analysis of the dynamics and vulnerabilities in the main sector of the economy and the linkages among them, and (iii) advising policies that anchor expectations, promote flexibility in adjusting to shocks and shifts, and liberalize international capital movements prudently.

Speaking on the role of IMF on India, he said that they support India's cautious approach to liberalizing the capital account. He further pointed out that FDI in India is low as compared to other successful emerging markets. Improving the business climate and further lifting restrictions on foreign participation in Indian companies and banks will be beneficial. He highlighted that the stress tests, conducted by IMF, show that the Indian banking sector as a whole is resilient to a tightening of provision requirements and to deteriorations in credit quality that is typical in periods of rapid growth. Thus, many banks will only be able to sustain continued high credit growth if they are also successful in raising new capital. He also said that staff fully supports the Reserve Bank's initiative to raise consumer awareness and fight unfair lending practices.

Mr. T. N. Ninan, Editor, *Business Standard* chaired the lecture.

International Trade in Education Services What Should India Do?

December 28, 2005



From L to R: Dr. Arvind Virmani, Director & Chief Executive, ICRIER, Prof. Stephen Heyneman, Professor of International Education Policy, Vanderbilt University.

Jointly with the United States Educational Foundation in India (USEFI), ICRIER organized a lecture by Prof. Stephen Heyneman, Professor of International Education Policy at the Vanderbilt University on 'International Trade in Education Services: What Should India Do?' on December 28, 2005 at ICRIER.

Prof. Heyneman has been with the World Bank looking after the education sector for over twenty years from 1977 to 1998. He is currently Fulbright New Century Scholar on Higher Education from the USA. In course of his long professional and academic career, he has closely looked at the economic and trade issues associated with educational commerce.

Pointing out the fact that education is among the services being traded, and has been included for discussions under the GATS framework, Prof. Heyneman analysed the concerns expressed by many scholars about classifying education as a traded service. Describing the content of education sector commerce, and defining the terms used in that trade, he reviewed the current status of education quality around the world, and explained why education is increasingly a factor of international trade. He reviewed the arguments for and against the trend to reduce barriers to education trade.

He justified competition in education services (that is underpinning of trade in education services) not merely as an article of faith and from some practical reasons like efficiency, but for furthering a basic human right. He argued that public interest is served best when each member of the public has access to the higher education it wants. Every monopoly abrogates this right of the public. Any nation that does not allow public the access to the education, it wants, abrogates a human right.

In the end, he weighed arguments both for and against India's participation in education trade and suggested that it would be morally, economically, and educationally intelligent for India to do so.

The lecture session was chaired by Dr. Arvind Virmani, Director (ICRIER). Dr. Jane E. Schukoske, Executive Director, USEFI welcomed the audience. The lecture session was attended by eminent academicians, both from the public and private sector, researchers, thinkers and policy makers.

Will Europe still be a World Economic Player in the 21st Century?

November 25, 2005

ICRIER organized a lecture jointly with the Embassy of France in India and Euro India Centre on 'Will Europe still be a World Economic Player in the 21st Century' by Professor Jean Pisani-Ferry, Head Bruegel Center, Brussels on November 25, 2005.

Pisani-Ferry reflected on the international economic role of the EU (with political pressure starting to rise in favour of a reduction of Europe's weight in international organizations), its representation in international economic institutions; the way it uses its power; the choices it faces and the potential role it can play in the rebalancing of power in the multilateral system to reflect rising economic powers like India and China?

Countering the growing perception that the EU is on the decline and does not respond well to global economic

challenges, Pisani-Ferry argues that the EU is the clear winner and a dominant player. This is evident through its dominant share in several international institutions – the G7, the OECD, and the international energy agency and also its significant share of membership in global institutions such as the WTO or Bretton Woods Institutions.

Quoting Vijay Kelkar and co-authors, he notes that the "combined votes of Brazil, China and India in the Bretton Woods institutions are 19% less than those of Italy, Belgium and the Netherlands, while their combined GDPs at market exchange rates are 23% higher, their combined GDPs at PPP exchange rates are four times higher, and their populations are 29 times higher. These are astonishing figures, which may explain why the Asian

countries feel so little ownership in the Bretton Woods institutions.”

However, he questions whether the EU makes effective use of its institutional power to set or at least to shape the architecture or agenda of the multilateral system. To assess this, he addresses three key domains pointing out the limits in each. For instance, in international trade, EU has not been able to develop a consistent strategy. In the area of currency, although Europe has made economic and institutional investment in the creation of a common currency and the setting up of support institutions, since the launch of the euro, neither the EU as a whole nor the euro area have expressed strong intentions to build on it to enhance the international role. Even in the area of international finance, EU's effective role does not seem to be commensurate to its potential role that its representation in the Bretton Woods organizations could allow it to play.

The policy issues according to him are evident: “Over representation in the international institutions and weaker

use of power is unsustainable. The EU has an opportunity to trade off formal, but partially ineffective power for a formally diminished, but more effective influence in world economic affairs. For this to happen, it needs to seize the opportunity of the call for a rebalancing of representations in the IMF and other institutions and grouping and reform of its own external representation. This does not need to imply a complete federalisation of external representation, which would not correspond to existing internal arrangements and for that reason would not be effective. The supervised delegation model in use in the trade field offers a middle path. It allows member states to retain control rights through the definition of a mandate and the supervision of its implementation.”

The lecture was chaired by Dr. Isher Judge Ahluwalia, Chairperson, ICRIER. It was attended by academicians, policy makers, thinkers and researchers.

High Debt Emerging Market Macroeconomics: Turkey, Brazil and other experiences

November 11, 2005



From L to R: Dr. Suman Bery, Director General, NCAER, Dr. Kirit Parikh, Member, Planning Commission, Dr. Kemal Dervi°, Administrator, UNDP and Dr. Arvind Virmani, Director & Chief Executive, ICRIER.

ICRIER organized a lecture by Kemal Dervi°, Administrator, UNDP and UN Under Secretary General on November 11, 2005. The lecture was organized jointly with NCAER and the UNDP at ASSOCHAM.

Dr. Dervi° started as the new head of the UNDP in August 2005. Prior to this he was a member of the Turkish Parliament and has also served as Minister, Economic Affairs and the Treasury, Republic of Turkey. He has played a significant role towards Turkey's recovery programme after the devastating financial crisis that hit the country in February 2001.

Dr. Dervi° in his lecture discussed the problems faced by high debt economies and how the situation led to the crises of emerging market economies such as Brazil, Turkey, Argentina and Mexico. He pointed out that the average debt

to GDP ratio in these economies has been very high — at around 70%, which is unsustainable leading to financial crises.

In case of Turkey he explained that to overcome the crisis they created a primary surplus by adopting a tight fiscal policy which led to a reduction in social expenditure like education, health etc. He therefore proposed a stability and growth facility programme to address volatility and high debt problems in emerging market economies that would help in achieving social stability and eventually reducing public debt.

Sharing his views on India, he said that although India has a very high debt to GDP ratio at 81% in 2002, the situation is however very different from high debt economies. He pointed out that the growth rate of high debt economies was significantly lower than real interest rates whereas in the case of India the real GDP growth rate exceeds the real interest rates. This leads the growth dynamics to work more favourably in the case of India. Therefore India's case is fortunately different, with a low inflation rate, high foreign exchange reserves, capital controls and low exchange rates volatility. Moreover there has not been any debt crisis in India. The other important point *vis-à-vis* India is that the major part of the public debt is contributed by the internal debt of the public sector making it less vulnerable.

Having said that, he cautioned that though the situation in India does not seem likely to face a debt event, however, if the debt ratio is allowed to creep up; it could lead to a significant negative impact on growth and investment that could be a drag on the economic activity. He also suggested reduction in fiscal deficit to better manage the debt situation in the country.

The lecture was very well attended by a number of eminent persons from academia, policy makers, media and various research institutes. Dr. Kirit Parikh, Member, Planning Commission chaired the lecture.

Tributes to Dr. I. G. Patel

A Memorial Meeting to honour the legacy of Dr. I G Patel was held on October 13, 2005 at the Auditorium of Teen Murti House.

There was a written tribute sent by Prime Minister, Dr. Manmohan Singh, since he could not participate in the meeting due to some unavoidable last minute

developments. The Prime Minister requested the Finance Minister, Shri P Chidambaram to step in for him. The Finance Minister spoke on the occasion adding his own tribute to Dr. I G Patel. Dr. Isher Judge Ahluwalia opened the memorial meeting with a two minute silence, followed by her tribute on behalf of ICRIER.



ICRIER's Memorial Meeting for Dr. I.G. Patel.

Prime Minister Dr. Manmohan Singh's Tribute to I.G. Patel

I.G. Patel belongs to a long line of patriotic Indian economists who dedicated their lives to the progress and development of our great Nation. Equally they were committed to the idea of India as a modern economy, a liberal polity and an inclusive society. When one thinks of I.G. one thinks of such great economist-civil servants, thinking-policy makers who were essentially liberal humanists but were committed to the shaping of a new India. Men like VKRV Rao, P C Mahalanobis, C D Deshmukh, Pitamber Pant, D R Gadgil, Sukhamoy Chakravarty, Raj Krishna, K N Raj and D T Lakdawala. One can think of many more for I.G. belonged to a generation of economists who were deeply committed to the building of a modern India.

I.G. Patel was not just an economist, much less a technocrat despite his long years in Government. He was made very much in the mould of the 19th Century political economist. He was technically highly qualified and politically and socially highly conscious. His decision to work in Government was clearly imbued by a sense of national purpose. This was evident in each of the issues that I.G. was called upon to tackle as a civil servant. His handling of the external account and the challenges posed by a variety of difficult balance of payments situations is just one example.

I.G. was committed to both fiscal responsibility at home and to prudent management of foreign exchange balances. He was always cautioning the Government against imprudent levels of external borrowing because he viewed this as a source of potential instability in the economy. He was willing to be a Keynesian at home as far as development spending was concerned, but was always careful when it came to external borrowing.

Apart from his scholarship and administrative acumen I.G. was also an institution builder. He played an important role in strengthening the professional side of the Ministry of Finance. Indeed his own decision to join the ministry, at the request of Pandit Nehru, inspired many young professionals to join Government, returning home from distant lands and leaving the comfort of academic ivory towers. I.G. set an example that several of his successors were encouraged to follow in bringing in the professional element into the working of the Union Ministry of Finance.

I.G. continued to be an institution builder even in that great institution of economic policy making – the

Reserve Bank of India. He earned for himself an enviable reputation for standing up to RBI's autonomy and its professional reputation. Faced with populist pressures from political quarters I.G. stood his ground on a variety of difficult policy issues. It is a matter of pride that independent-minded central bankers like I.G. have given us a central bank of which we are all truly proud. There are few parallels in the developing world of such professionalism in monetary and exchange rate management.

I.G. was also an institution builder outside Government. He was deeply and passionately committed to the Indian Institute of Management - Ahmedabad, the London School of Economics and Political Science and the Indian Council for Research on International Economic Relations. He gave each of these institutions both academic and administrative leadership. I.G. was associated with a variety of other institutions and in each case he endeared himself to those who benefited from his wisdom, his patience and affection, his scholarship and commitment and, above all, his deep nationalism.

Indeed, I.G. was a remarkable combination of deep nationalism and expansive internationalism. He took a deep interest in international affairs and wanted India to be an active participant in global processes and institutions. His nationalism was not chauvinistic. It was definitely not jingoistic. His nationalism was built on the foundation of Indian liberalism—a syncretic view of our own culture and inheritance. For this view his internationalism had the best interests of India in mind.

Finance Minister Mr. P. Chidambaram's Tribute to IG Patel

We are gathered here for this Memorial meeting organized by ICRIER to mourn the passing away of Dr. I.G. Patel, India's foremost economist and policy maker for many decades, a great scholar and a dear friend to many assembled here.

The line of patriotic Indian economists who were responsible for economic policy making in India, undeniably includes Dr. I.G. Patel or IG as he was fondly called. He occupied every office that the nation could offer to an economist, but remained modest, soft-spoken and self-effacing. He was generous in his intellectual and other contributions to society.

His friends recall that his company always filled one with so much joy, apart from being intellectually stimulating. They will always remember him for his wisdom and dedication to public service.

I had the good fortune to meet Dr. Patel on a few occasions, and at every meeting he was generous with his time; he listened patiently; and he gave wise advice. IG had a brilliant mind, and an exceptionally charming personality, which drew people from a wide variety of fields to him.

Right from the beginning IG showed exceptional ability

I.G. had deep faith in the innate genius of the Indian people. He was proud of our creativity and enterprise. As a Gujarati, the home to dynamic Indian enterprise, I.G. believed in the ability of Indian enterprise to stand up and be counted. When he realized the futility of so much Government interventionism he called for a "Bonfire of Controls" and decisively shaped the debate in India at the time on economic policy in the modern era.

Finally, one cannot pay tribute to I.G. without recalling his service and commitment to his own people and his hometown, Baroda. I.G. and Bibi chose to move to Baroda and became active members of their community. On so many occasions, when Gujarat faced difficult social and political challenges, I.G. and Bibi spoke up for the idea of India that they so dearly believed in. Theirs was a liberal voice, a voice of reason, a voice of compassion. In standing up for their view of a modern, liberal India I.G. and Bibi made us all proud and endeared themselves to the people of Gujarat.

The best tribute we can pay today to I.G. is to work hard to build that modern India of his dreams. An India that can stand tall in the comity of Nations. An India in which the creativity and enterprise of the people can blossom. An India in which the Government functions as a helping hand, not an impediment to progress. I.G. had great faith in the ability and patriotism of ordinary people. It is our task to build an India in which these qualities find true and full expression.

to hold his own. The best known true incident is the story of his application for a scholarship to study economics to the Sir Dorab Tata Trust, but he was told that it was available only for science subjects. He responded, "Who said economics is not a science?" He was asked to demonstrate it, and IG promptly wrote an essay on the subject which won him the scholarship.

Very few attained a legendary status so early in their lives as IG did. He broke many records during his scholastic career in India, as well as at Cambridge, where he topped the Economics Tripos. Armed with a first class MA degree and PhD from Cambridge, IG returned to Vadodara to teach at Baroda College.

Soon thereafter, he joined the IMF's Research Department in 1950, and was considered the most outstanding of the recruits. His first encounter with economic policy in India was as a Member of the two-member Mission headed by Edward Bernstein, Economic Counselor of the Fund. The two wrote their famous report on deficit financing and economic development, which put a favourable construct on deficit financing. The Report, believed to have been written largely by IG, is regarded as a classic even today. His peers, and successors, have commented that



IG was at the centre of the development debate in Washington.

IG returned to India where, between 1954 and 1982, he worked in the governments of four Prime Ministers (Nehru, Shastri, Indira Gandhi and Morarji Desai). The one break was 1972-77 when he took up an assignment with the UNDP. He did not just work in their governments; he interacted closely with every Prime Minister and enjoyed their total trust.

He became Economic Advisor in the Finance Ministry in 1954 and served in various positions in the Government including a term as the Governor of the Reserve Bank of India. During that period, the country faced one economic crisis after another. IG was the chief guide and mentor who steered the country through the crises. His amazing capacity to preempt a problem before it even became a problem, to come up with practical solutions and to get to the bottom of it to resolve the issue, is what made him an excellent economic policy maker. For about 20 years during that extremely sensitive period for Indian politics and the economy, he remained an important member of the government's highest policy making fora.

He was the first economist to serve as Secretary (Economic Affairs) in the late 1960s. That principle has since been observed only intermittently, and I think it deserves to be followed as an invariable rule. IG never really retired. He went back to the academic world as Director of IIM, Ahmedabad. He then went on to become the first Asian Director of the London School of Economics (LSE). His widely acclaimed book, *An Encounter with Higher Education: My Years at LSE* gives a vivid and honest account of his years at LSE. He headed the Aga Khan Foundation for Rural Development in India. Later he continued to serve as Director of the State Bank of India and Chairman of ICRIER. He continued to be involved in numerous international committees.

IG was a man of culture and a man of great intellectual and moral elegance. Among his many friends, his extreme kindness, his wit and his humour were legendary. His openness to others and his simplicity were

always appreciated by all. He gave a lot to his colleagues and friends solely out the goodness of his heart.

I am not competent to speak of IG's ideology or economic philosophy - those who worked with him are best placed to make that judgment. It is not far fetched to surmise that his own views may have conflicted with the then preferred model of development, and I suspect that he had to subordinate his own views in order to carry out the responsibilities assigned to him. Was he a few steps ahead of his times or was economic policy a few steps behind the dire need of the country? I am faced with this question everyday in my work. I am afraid there was no conclusive answer then, as there is no conclusive answer now.

IG's writings - his lectures, monographs, books and research papers - left a mark not only because of their brilliance but also because of his unique intellectual position. His experience combined with his balanced approach and candid style of writing made all his writings very sought after. In his famous book *Glimpses of Indian Economic Policy: An Insider's View*, IG reflected on India's economic policy as it evolved from the 1950s to the 1980s. At one place he observed, "The story of Indian economic policy from Independence to the present day is one of evolution and continuity - not of revolutionary or sharp turns in direction. It reflects Indian realities. It needs a big smack or an electric shock for a huge and complex animal, say an elephant, to make it change its direction - and then, too, only slowly".

I would like to give the last word to IG himself. In his book *Glimpses of Indian Economic Policy*, he ends by saying "In the ultimate analysis, it's your own temperament that shapes your behaviour and destiny. I learnt from my father not to be judgemental - that those who betray or hurt you may have a good reason, that there is always another side to everything. I learnt from my mother on the other hand that there are things about which one has to feel strongly. It is not easy to strike a balance. But one tries as best as one can."

IG's brilliance and his accomplishments are well known and his service to the Indian economy well appreciated by all.

His simplicity and integrity were an example to follow.

- Isher Ahluwalia

IG played a stellar role in formulating India's economic and monetary policy and went on to head the London School of Economics.

- Bimal Jalan

ICRIER Working Papers

No.	SUBJECT	AUTHOR	DATE
164	Integration of India's Money Market: Interest Rate Parity in India	Vipul Bhatt Arvind Virmani	Jul 2005
165	Non-Tariff Barriers and India's Exports: The Case of ASEAN and Sri Lanka	Mohd. Saqib Nisha Taneja	Jul 2005
166	Intellectual Property Conventions and Indian Law	Mahima Puri Anjali Varma	Jul 2005
167	Post-MFA Adjustments in India's Textile and Apparel Industry: Emerging Issues and Trends	Meenu Tewari	Jul 2005
168	Revealed Comparative Advantage: An Analysis for India and China	Amita Batra Zeba Khan	Aug 2005
169	Barriers to Movement of Natural Persons: A Study of Federal, State and Sector-Specific Restrictions to Mode 4 in the United States of America	Debjani Ganguly	Sep 2005
170	Policy Regimes, Growth and Poverty in India: Lessons of Government Failure and Entrepreneurial Success	Arvind Virmani	Oct 2005
171	Critical Issues in India's Services-Led Growth	Rashmi Banga	Oct 2005
172	Impact on India of Tariff & Quantitative Restrictions Under WTO	Bishwanath Goldar	Nov 2005
173	The Role of Price and Cost Competitiveness in Apparel Exports Post MFA: A Review	Meenu Tewari	Nov 2005
175	Global Power From the 18 th to 21 st Century: Power Potential (VIP ²), Strategic Assets & Actual Power (VIP)	Arvind Virmani	Nov 2005
176	India-ASEAN Cooperation In Services: An Overview	Suparna Karmakar	Nov 2005
177	Current WTO Negotiations on Domestic Subsidies in Agriculture: Implications for India	Parthapratim Pal	December 2005
178	China's Socialist Market Economy: Lessons of Success	Arvind Virmani	December 2005

International Networking

Dr. Arvind Virmani

- Delivered keynote speech on 'Market Reforms and Growth in India' at the International Conference on 'Is there an Economic Orthodoxy for Developing Nations?' jointly organized by the National Chengchi University, South African Institute of International Affairs and Pent Foundation, Taipei, September 28-29, 2005.
- Panelist at the symposium on 'Shifting Global Economic Power: From OECD to BRISCAM' organized by The Centre for International Governance Innovation (CIGI), Canada, October 22, 2005.
- Panelist at the panel discussion on 'Sino-India Cooperation' jointly organized by the International Monetary Fund, the Chinese Academy of Social Sciences and the Stanford Center for International Development, Beijing, October 27-28, 2005.
- Panelist at the session on "Liberalization of Trade and Capital Markets: Tendencies and Challenges" at the International Conference on "Economic Order and Economic Development" organized by China Development Institute and Konrad Adenauer Stiftung, Shenzhen, October 31 – November 1, 2005
- Presented a paper on 'Economic Growth and Geo-political Power: The Likely Emergence of a Tripolar World' and participated in the Round Table on Economic Development & National Security at the Conference on 'Economic Development and National Security: The Case of India' jointly organized by The US India Institute and United Nations Industrial Development Organization (UNIDO), Washington, D.C., November 16, 2005.
- Participated in the South Asia Network of Economic Research Institutes (SANEI) Seventh Annual Conference and (i) Chaired Session II 'SANEI VII Presentations of Reports' at the Conferences; and (ii) attended the Steering Committee Meeting, Islamabad, December 22-23, 2005.

Dr. Shankar Acharya

- Visit to Dhaka for World Bank Study of Growth and Employment Strategy, August 2–10, 2005.
- Lecture on 'India's Economy: Current Status and Future Prospects', at Schumpeter Award event (for Mr. Nandan Nilekani) in Vienna, September 20, 2005.
- Lecture on 'India's Economic Growth: Retrospect and Prospects' at Vienna Institute for World Affairs (WIIW), September 21, 2005.
- Presentation at the Workshop on 'Growth & Employment' Dhaka, Bangladesh, December 12–13, 2005.
- Panelist at the session 'Emerging Economic Trajectories' at the Lakshman Kadirgamar Memorial Conference on 'India-China Relations' at Bandaranaike Centre for International Studies (BCIS), Colombo, Sri Lanka, December 16–18, 2005.

Dr. Arpita Mukherjee

- Made a presentation on 'Distribution Services: A Close Look at the Indian Retail Sector' at the Expert meeting on Distribution Services, Organised by UNCTAD, Geneva, 16–18 November, 2005.

Dr. Nisha Taneja

- Paper presented at a workshop on Indo-Pakistan Trade organized by the World Bank held in Islamabad on 11–13 July, 2005.

Dr. Amita Batra

- As member of the Indian Delegation for the Fifth India Korea Dialogue made two presentations on i) India's Growth Momentum and Reform Process and ii) South Asia - Rise of India and its Regional Role. The Dialogue was held on October 6, 2005 and jointly organized by ICRIER and the Seoul Forum for International Affairs, Seoul.

- Presented the 'India – Country Study' at the regional conference on 'SAFTA: Opportunities and Challenges' organized by USAID and Nathan Associates, USA in New Delhi, October 24–26, 2005.
- Discussant for the paper on 'Trade Facilitation in South Asia' by Jim Robertson at the regional conference on 'SAFTA: Opportunities and Challenges' organized by USAID and Nathan Associates, USA in New Delhi, October 24–26, 2005.

Dr. Surabhi Mittal

- Presentation of the work in progress of the project 'Effects of Global Agricultural Trade Liberalization on Agricultural Production and Poverty in India' under the IMPACT session of Seventh Annual SANEI conference, Islamabad, Pakistan, 22–23 December, 2005.

Dr. Sanghamitra Sahu

- Presented the work-in-progress report of the project titled 'Governance in the Provision of Public Goods in South Asia' at the seventh annual SANEI conference, Islamabad, December 22–23, 2005.
- Participated as a discussant at the session on 'Governance and Economics of Urban Water Transfer: A case study of Melamchi Intersectoral

Water Transfer Project in Nepal' at the seventh annual SANEI conference, Islamabad, December 22–23, 2005.

Dr. Parthapratiim Pal

- Participated in a video conferencing organized by the World Bank. This was a 5-point Video Conference on the Hong Kong WTO Ministerial Conference, involving the Bank's Trade Team (Washington), staff of the European Commission (Brussels), Northern Civil Society (from Washington and Brussels), and representatives from Uganda, Ghana, Moldova, and India.

Dr. Pawan Agarwal

- Participated in the first meeting of the International Group (31 research scholars / professionals from 22 countries) of Fulbright Scholars, who are examining Higher Education in the 21st Century at Boston (USA) from September 28–30, 2005.
- Made a presentation on 'Indian Education System: Policies and Perspectives' before a high level delegation of 26 education and business leaders from North Carolina (USA) under 'Learning from India' initiative that is looking at international best practices in education at Fulbright House, New Delhi on January 19, 2006.

ICRIER Welcomes

- Dr. Isher Judge Ahluwalia as Chairperson. She was unanimously elected by the General Body of ICRIER at its meeting held on Aug 8, 2005.
- Dr. Garima Malik as Fellow
- Mr. Rajesh Rampal as Secretary
- Ms. Baiju Sanyal as Consultant (External Relations)



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