BROOKINGS INDIA

India-Australia G20 Roundtable – September 10th

Report

Session 1 – World economic outlook and new source of growth: strategic priority for G20

Chair: Prof. Peter Drysdale (ANU)

Panellists: Dr. Subir Gokarn (Brookings India); Prof. David Vines (Oxford); Dr. Alok Sheel (Govt. of India)

This session reviewed developments in the global and regional economy and the priorities in the G20 and APEC agenda, and how they might be related. The presentations by the panellists outlined the current economic conditions prevalent in the world economy, and the constraints that economies faced in their growth prospects. The G20's strategic priority in this regard must be to promote new sources of growth through a collaborative effort amongst the member nations.

The Economy –

The IMF projects the global growth of 2014 to be at the long-term pre-boom average – post the financial crises, global growth grew by 2 percentage points, with the emerging economies growing considerably faster than the advanced economies. Though the recovery after the crisis has been tepid for global growth, the financial markets and asset prices have risen sharply. However, the economy is still on life support, with the sharp decline in the money multiplier, real recovery is based on robust income growth instead of the wealth effect as it is now. The stance of the monetary policy is also confusing for markets.

The pre-crisis trends still persist in most economies, with a disconnect between asset and consumer prices. It is not clear whether the regulatory reforms post the crisis have made financial markets less risky. The accommodative monetary policies in place have led to a build-up of assets rather than investments.

What can the G20 do? –

Structural reforms have been the major theme in lifting the impediments to growth – countries have primarily focused on macro-economic policies to counter slow growth, however, these policies can only fix cyclical downturns and not the structural impediment to growth. The Brisbane FWG Action Plan seeks to commit countries to structural reforms and investment in order to boost employment and income growth. The focus of the G20 must be on productivity issues, and providing means to boost productivity. The G20's 2% growth target under its global growth strategy could be achieved through the promotion of competition especially in the services sector.

Macroeconomic policies are not sufficiently supportive in bringing countries back on the high growth path. With reforms in taxation and social protection and addressing the obstacles to investment, particularly in infrastructure, the G20 can achieve its targeted growth. The focus must be on the widening of instruments available, as well as making it possible for countries to adopt these instruments. The G20 has the opportunity to influence domestic policy debate and direction due to growing global interdependence.

Session 2 – Financial Rebalancing and the emerging economies

Chair: Dr Subir Gokarn

Panellists: Prof Ila Patnaik (Principal Economic Advisor, Ministry of Finance); Prof David Vines (Oxford University)

The issue of spillover effects – the unintended and unplanned consequences of actions, taken by advanced economies, on emerging market economies – is an important one for the G-20 Summit to consider. In light of this, the second panel – comprising Ila Patnaik and David Vines, and moderated by Subir Gokarn – examined the outlook for emerging economies and international financial flows in the context of developments such as the tapering of the U.S. Federal Reserve's Quantitative Easing program, which have caused upheaval and tremendous exchange rate uncertainty. Overall, the debate focused on the role of safety nets, but while accentuating the need for international cooperation, particularly in terms of data sharing and the criticality of transparency in protecting against financial instability.

Monetary policy in advanced economies priorities domestic interests over international ramifications, thereby making international coordination infeasible. Given that these economies have an obligation to carry out monetary policy that is in line with their own self-interests, the G-20 must shift its focus to the development of resilience in emerging market economies, through the **creation of stronger buffers**. Some of the policies that would contribute to such a buffer include exchange rate flexibility, judicious capital account management, and developing constraints on leverage ratios. Regional financial arrangements also play an important role, and are viewed positively as they complement the limited resources of the IMF.

The view among emerging market economies however is that the task of devising such buffers is daunting, and that the IMF offers limited support in dealing with vulnerabilities. EMEs, therefore, view the G-20 as a forum to focus on **coordination to develop collective resilience to externalities and volatility**. While the view that advanced economies cannot protect their emerging counterparts from economic uncertainties and vulnerability is understandable, there are still measures that advanced economies can take to support EMEs. Some of these include the sharing of regulatory data, and establishing a G-20-wide framework for regulations for member countries to adhere to.

Eventually then, a key priority for the G-20 is to enable developing countries to develop a framework of resilience that protects them against uncertainty. But, in addition, there are several avenues for cooperation, particularly in terms of data sharing and transparency in regulatory policies that would facilitate such a framework.

Session 3 – Investment and infrastructure

Chair: Prof. David Vines (Oxford)

Panellists: Prof. Andrew Elek (ANU); Prof. Ramprasad Sengupta and Dr. Sacchidananda Mukherjee (NIPFP)

This session focused on the structural reform agenda and how it relates to the infrastructure for regional and international connectivity. The panellists provided a macro perspective on the need for structural reforms to promote infrastructure investments, as well as iterating the need for collaboration between the G20 nations in the implementation of these reforms. The key issues raised from the discussion were:

The current fiscal and monetary policy of most economies is unsustainable, resulting in delaying of new investment. In order to revive the momentum of the global economy, a boost in demand is needed – investment in infrastructure would help in meeting this criteria. Growth in infrastructural stock is important for high growth to take place, and for the removal of poverty as well as sustainable development.

The funding and financing of infrastructure projects is a key issue moving forward. There are huge gaps in economic infrastructure, with potentially high rates of return, hence, there is a need to fix this financial market failure in order to avail the benefits of filling these gaps. Financing infrastructure projects is not the main constraint towards investment, there is however a dearth in good projects available to invest in. The fundamental reasons for a lack in investment in infrastructure projects are the risks and uncertainty of such projects resulting in a lower credit rating. There is a need to mitigate this risk through reforms, and allow for risk sharing between the public and private investors.

Individual nations need to implement structural reforms in order to facilitate investment in infrastructure projects – the private sector does not have the incentive to invest. The G20 forum can play a crucial role in mitigating country specific risks – Multilateral Development Banks (MDBs) could minimise risks through credit enhancement or project guarantee. The Credit Enhancement Scheme in India is one such way of mitigating the risks associated with investing in infrastructure projects.

There is potential to scale up individual country experiences at a global level. This would add value through international cooperation, through shared relevant expertise. One such example, is the ASEAN Economic Community under which member nations are all investing in transport, communications and energy networks to create an infrastructure network to facilitate investments. Such an international collaboration can support governments to design and implement reforms needed to accelerate economic infrastructure.

Session 4 – Employment and Labour Mobility

Chair: Prof. NR Bhanumurthy

Panellists: Dr Santosh Mehrotra (JNU); Dr. Shiro Armstrong (ANU)

This session addressed the state of the labour force in India and South-East Asia, looked towards the forthcoming G-20 summit as an opportunity to promote employment and labour mobility. When discussing the issue of labour mobility, the relevance of the G-20 emerged as significant in a global arena where developed countries are calling for a free movement of labour.

While it is often presented within a domestic law framework, there is a need to replicate the Australian model in India and other South-East Asian nations. Nevertheless, it is imperative to make a distinction between labour mobility and immigration - raising a pressing issue that needs to be addressed by the G20 transparently, and should be a key aspect of the Brisbane 2014 agenda. A key component of this is the high probability for individuals to reside in their regions of employment post retirement – due to the fact that they cannot carry their post-retirement benefits back to their home country. However, while there is a looming aging population in Europe, there is also a large number of unemployed youth. In order to take advantage of the demographic dividend, the importance of sectoral divisions and cross-border competency standards were agreed upon so as to address a real requirement in selective sectors.

In the past few years, there has been a decline in poverty and an increase in growth. As a result, there has been an increase in the consumption of simple manufacturing goods produced by small-scale industry across the country, which, in turn, presented an increase in the jobs in this sector. There is also a noted decline in the absolute proportion of the population engaged in the agricultural sector. 37 million people have left agricultural production due to growing mechanisation, leading to an increase in the proportion of the population engaged in rural infrastructural and construction work. However, the concept of ‘jobless growth’ remains a pressing issue. While there may be an increase in output, a reduction in employment is evident in organised segments of all sectors. To further boost India’s labour participation and growth, we must move from a reliance on domestic consumption and a focus on expanding the garment manufacturing sector.

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Special Lecture by Prof Peter Drysdale on "The G-20 Summit at Five"

In a lecture on his recent book, co-edited with Kemal Dervis of the Brookings Institution, Professor Peter Drysdale of the Australian National University shared his thoughts on the strengths and weaknesses of the G-20, highlighting that the group is in a crucial phase of transition, and must seek to redefine its scope and objectives. While the overarching understanding was that the G-20 continues to serve a valuable purpose in a world riddled with various political, social, and economic challenges, the group must evolve beyond its existing role as a crisis management unit to act instead as a "steering committee" for the world economy.

The G-20 has played an invaluable role in mitigating the impact of the financial crisis. However, both industrial and emerging market economies continue to perform below their potential, and therefore, the group must develop strategies to put countries back on a trajectory of sustainable growth. In this regard, some of the key issues to consider include the vast unmet demand in investment in infrastructure, and the need to make such investment productive.

In making this transition in goals, there is a need for the G-20 to reassess its scope. First, any divergence from the core mission of achieving stability and resilience poses a significant threat to the G-20's functioning. Consequently, it must narrow its focus, and not see itself as a solution to a multitude of varied problems. Second, the role of a "steering committee" for sustained growth requires that the G-20 move from a "summit focus" to a focus on long-term structural issues. Finally, the diversity of its membership has been the G-20's biggest strength, and the group must ensure that it retains this aspect, and continues to convene the right mix of economies and people.