

# ISAS Brief

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## **G20 Agenda and India's Priorities – an Appraisal**

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In an age with multiple threats to multilateral economic cooperation, the progress and achievements of a G20 summit (accounting for 80% of world trade and 85% of world GDP) generate natural interest. Before we look at the developments at the recent summit in Brisbane (Australia) and implications for India, a quick look at the preceding developments may be useful.

Countries like the United States and the United Kingdom have had climate change and energy efficiency at the top of the agenda apart from trade facilitation. With China agreeing to deliver on emission targets, the world is looking at India to address this issue. With coal being the major source of power in India, the country is placed far from appeasing the West on such expectations. The recovery of the global economy with the exception of the US is still to gather steam. Trade facilitation at the World Trade Organization had reached a potential deadlock over food security-related disagreements between India and the US. India struck a deal with the US on the eve of the summit allowing it to independently address its concerns on food security within the WTO framework for the time being. India's Prime

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Minister Narendra Modi was stressing the need to steer home the black money stashed in foreign banks, besides appropriate tax information sharing.

The major theme of this G20 summit centred round increasing the G20 GDP by at least two percentage points by 2018. Lowering of trade restrictions and managing both supply and demand side obstacles are critical to achieving this goal, supported by infrastructure and employment growth. Job creation is especially important as 200 million people remain unemployed, i.e. around 30 million more than when the crisis began. Unemployment rates across G20 member-countries vary, with the European Union as a whole experiencing an overall unemployment rate of 11.5% in September 2014. EU industrial production saw a meagre growth of 0.7% over the last one year, and GDP growth was 1.2% in the last one year. In fact Germany, Austria, France, Italy, Netherlands and Portugal have seen minor contractions in industrial production in the last twelve months. Till date the encouraging signs in the world economy are the US's recovery with fiscal and monetary policies expected to facilitate short- to medium-term growth.

Previous G20 summits stressed the need to curb protectionism in a global economy recovering from the shocks of the financial crisis and thereafter the economic crises in the EU. In reality however, economies have turned protectionist through tariff and non-tariff barriers, and this remains a concern for the G20 countries as the global economy struggles to get back on track.

In the latest summit, the leaders agreed on three broad fronts, namely: acting together to lift growth and create jobs; building a stronger, more resilient global economy; and strengthening global institutions.

Employment generation and building greater infrastructure for world trade is of top priority. The "Global Infrastructure Hub" shall be established with a four-year mandate to facilitate networking among governments, private sector and development banks etc, and it will act as a knowledge-sharing platform. Undoubtedly, infrastructure development kick-starts employment growth and improves economic prospects. A detailed action plan is noticed for each country to facilitate employment growth. The recognition of global value chains and the need for better transport infrastructure for contributing to the new age of "made in the world" products has implications for countries like India. Currently, India's participation in the global or regional value chain remains limited, and the potential for India to mobilise resources in the South Asian Association for Regional Cooperation (SAARC) region to reap

trade benefits is to be explored. An action plan to reduce remittance costs to 5% of the amount of remittance (from its current levels of nearly 10%) is also in India's interest since the quantum of foreign remittances entering India has gone up steeply.

A commitment to build a globally strong financial architecture is echoed in the communiqué, and it is here that the Indian concerns on black money and transparency-related issues of tax legislations are evident. While mention is made of the Base Erosion and Profit Shifting (BEPS) Action Plan and the automatic exchange of tax information (AEOI), no detailed road map is provided to this effect. Greater coordination on tax laws has been called for so as to infuse transparency in funds transfers that would ensure taxation of profits in the geography where they are earned. Adherence to Basel III norms with additional loss-absorbing capacity for global-systemically important banks will increase financial resilience.

On strengthening global institutions, quicker implementation of the International Monetary Fund (IMF) quota- and governance-reforms and of the 15<sup>th</sup> General review for quotas with reference to the new quota formula agreed in 2010 has been stressed. This should increase the influence of countries like India and China over the IMF policies in addition to coordination between the IMF and the New Development Bank which the BRICS forum (consisting of Brazil, Russia, India, China and South Africa) has recently agreed to establish.

Energy efficiency and climate change at a world level are stressed with separate action plans for each to foster global cooperation on the usage of renewable energy.

On the whole, this G20 summit has rolled out action plans to build the base for sustainable and inclusive economic growth. Most of the focus areas resonate well with India's development agenda of increasing employment through investment in infrastructure, especially through the public-private partnership (PPP) route, and facilitating trade. While India remains one of the highest-taxed countries in the world, it would be interesting to see the developments on transparency, sharing of tax legislation and repatriation of black money. As the stage is set for negotiations to facilitate world trade at the WTO, the progress of the G20 action plans, with increasing participation of India in regional trade-value chains, would shape India's goal of inclusive growth as well as establish it as a major economy in the world.

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