The G-20: Challenges and Opportunities Ahead

The Australia India Institute Chanakya Papers

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Executive summary

With Australia hosting the G20 summit, in Brisbane later this week, the issues dominating the summit's agenda are financial sector regulation, trade facilitation measures, protectionism, infrastructure investment, and tax policy coordination. The G20, as a genuine summit of national leaders, can credibly implement meaningful measures. What is, however, desirable is a more focused approach to increased economic growth across member nations, especially after the US financial crisis.

Financial sector regulation is necessary to curb shadow banking and to protect commercial banks from failure. It is equally necessary to recognise that developing countries must be included in the financial system – with access to banks, insurance and loans. A properly functioning financial market is essential for business to grow and create more jobs.

Financial crises can arise when money from financial markets is unable to find its way to real productive activities. The delinking of the financial and the real sectors of the economy can have other negative effects, too, such as capital flight, competitive devaluation, and protectionism. As quantitative easing is reduced in the United States, countries which are not performing well economically (and yet have opened up their capital accounts) are likely to be the first to experience an outflow of capital, making them vulnerable. A sudden outflow of funds from any economy not only reduces the present funds available for investment but can also significantly downgrade a country's credit rating, further limiting the future availability of funds. Consequently, the G20 needs a growth strategy to increase potential-level of output, controlling for financial largesse (quantitative easing).

A second issue is competitive devaluation. Quantitative easing in the United States and Europe has not only exported inflation to developing and emerging economies but has been responsible, to some extent, for devaluing their currencies. Competitive devaluation which is not otherwise supported by an increase in productivity is bad for global growth and should be discouraged.

If growth does not pick up, countries may become more inward-looking. A slump in global demand may see them resort to protectionist measures – the third issue caused by delinking the financial and productive sectors of the economy. Protectionism is now becoming evident in higher tariffs and non-tariff barriers – mainly anti-dumping measures, sanitary and phytosanitary sanctions, and even provisions granting subsidies to domestic producers. It should be noted that much of this discrimination against foreign commercial interests breaks no World Trade Organisation (WTO) rules. For example, some countries are increasing applied tariffs while keeping them below the bound tariff rates to which they have agreed at the WTO.

Australia's initiative to implement trade facilitation measures must include fighting protectionism as well. The G20 was partly successful in making the WTO Bali ministerial meeting work. So there is hope. At the Bali WTO meeting, world leaders focused on a minimal set of issues related to trade facilitation and food security, instead of the omnibus agenda of the original Doha Development Round. Negotiations on the full Doha Development Round have stalled through disagreements on major issues such as agriculture, industrial tariffs, NTBs, services, and trade remedies. Despite its reduced agenda, the Bali WTO ministerial meeting was still only partly successful. India, which had initially agreed to the deal, declined in July 2014 to sign the trade facilitation agreement in the absence of any consensus on food security issues.

An issue that fits well with the G20's development agenda is the need to attract the long-term capital required to fund infrastructure such as roads, ports and airports in developing and emerging economies. Here, public-private partnerships could be encouraged. Member countries should also be encouraged to reduce wherever possible the cost of doing business on their own turf, so as to attract domestic and foreign private investment.

The alternative to private investment is funding from multilateral institutions. Within institutions such as the International Monetary Fund (IMF) and the World Bank, which determine the flow of multilateral funds to specific regions, voting power then becomes an issue. A country's voting power is determined by its contribution to these institutions, which in turn is determined by how *rich* its economy is. Currently, developed countries, including the United States and European countries, have greater voting power. Developing nations, including India and China, want reforms so that multilateral aid can better match needs, independent of voting power. Australia will have to maintain a fine balance between the emerging and industrialised world when it comes to reforming voting power at the IMF and World Bank.

Again, keeping in mind the G20's development objective, Australia should take a lead role in coordinating policies on transfer pricing (tax concession), and help to build better tax collection mechanisms in emerging economies. Member states' tax authorities should be encouraged to collaborate and coordinate their efforts to combat tax evasion, so that entities and individuals with cross-border business interests can be monitored effectively. Tax concessions, tax evasion, and unwarranted subsidies may worsen countries' current account balances – which is bad for growth.

Finally, the task of the G20 summit will not be complete unless it increases the pressure on European governments to bring in necessary structural reforms. Reforms to labour and pension laws (which have been criticised as austerity measures), and a relaxation of immigration laws are essential if Europe's fiscal deficits are to be reduced, and economic growth sustained. The task of negotiating such a measure will not be easy for Australia. Poll results in 2012 and 2014 show voters in France and Greece do not like reforms, and tend to punish parties which support them.

To strengthen the G20 it should be upgraded from a forum to an institution, in order to make implementing difficult measures such as structural reform easier and more effective. If G20 is institutionalized like WTO, it can oversee the Mutual Assessment Programme (MAP) embodied under G20, more effectively.

Introduction

The Group of Twenty (G20) was formed following the Asian financial crisis of 1997, when the need to restore the world economic order was felt for sustaining economic growth. World leaders realised the importance of coordinating demand-management policy, both fiscal and monetary, in order both to create more jobs and growth, and to strengthen national economies' resilience to macroeconomic shocks. To make this coordinated effort effective, a forum was needed comprising both developed and emerging economies. Thus the G20 was formed as an association of industrialised and developing economies. The G20's importance can be gauged from the fact that it accounts for 85 per cent of global gross domestic product, more than 75 per cent of global trade, and impacts on the lives of about two thirds of the world's population.[1]

The G-20 countries have embraced a goal of generating more than USD2 trillion in additional output over five years while creating tens of millions of new jobs, signalling optimism that the worst of crisis-era austerity is behind them (Reuters, 2014).

At the end of two days' meetings in Sydney, Australia, in February 2014, finance ministers and central bankers from the G20 agreed on measures to increase investment and employment in member nations. The growth plan borrows heavily from an International Monetary Fund (IMF) paper prepared for the Sydney 2014 meeting,[3] which estimated that structural reforms would raise world economic output by about 0.5 per cent a year over the next five years, raising global output by USD2.25 trillion.[2]

G20 summits were organised in the aftermath of the US financial crisis, with the aim of coordinating fiscal and monetary measures across member nations. The idea was to minimise fluctuations in national output (that is, gross domestic product) in the short run, and to achieve sustainable long-term economic growth. Volatility of output is responsible for two inevitable evils, namely inflation and unemployment. According to the IMF report[4], the G20 during the February 2014 meeting in Australia discussed the conditions under which the dual objective of job creation and output growth could be met.

How feasible is this project? To put things in perspective, the economic recovery in the United States is at a nascent stage, and the euro zone is yet to emerge from its crisis. Gross domestic product (GDP) for the United States expanded at an annualised rate of 2.5 per cent in the first quarter of 2013, compared with 0.4 per cent in the fourth quarter of 2012, and 2.2 percent for

[1]In 2014, G20 group accounted for 85 per cent of global gross domestic product and over 75 per cent of global trade.
[2]Reuters (February, 2014), G20 aspires to faster economic growth, roadmap sketchy. Available at: http://www.reuters.com/article/2014/02/23/g20-australia-idUSL2N0LR05S20140223.
[3]International Monetary Fund (2014), Global Prospects and Policy Challenges. Available at: https://www.g20.org/sites/default/files/g20_resources/library/IMF%20Surveillance%20Note%20(February%202014).pdf. Accessed on 13/09/2014
[4]ibid (note 4).

the whole of 2012. In the European Union (28 countries), growth in the second half of 2013 grew at 0.2 per cent compared to the same period in 2012. The latest Eurostat figure suggests that during the second quarter of 2014 GDP in the European Union (28 countries) grew by 0.7 per cent, while GDP growth across the Euro Area was only at 0.2 per cent.[5]

But there is more to this story than these macro data suggest. Growth has not been uniform in the Euro zone, nor in Asia. Germany stands out in comparison to the rest of Europe; in Asia, the second fastest growing economy, India, has slowed down. When growth across a region is not uniform, a common macroeconomic policy cannot be formulated. For instance, if Germany is expanding while Greece is contracting, the European Central Bank cannot formulate a common demand-management policy for the European Union – because Germany would require a contractionary and Greece an expansionary demand management policy. Asymmetric economic activity indicates that long-run movements in real output are not synchronised. Asymmetric economic activity is also evidence of a contradiction between internal and external macroeconomic policies. Under such a circumstance, countries find it difficult to cooperate. The costs associated with cooperation exceed from not to give in to a common macroeconomic policy. Ostry and Ghosh (2013) find no evidence to suggest that any of the large countries have made significant adjustments to their economic policies in response to peer pressure under the Mutual Assessment Process (MAP) as enshrined in the G20 framework.[6] In order to lift growth rates and create more jobs, member countries should be cautious about following policies that have negative spillover effects on other economies. To make the MAP effective, G20 member nations need a clear explanation for their citizens of the value of macroeconomic cooperation. Structural reforms are required to achieve uniformity, something especially true of modern-day Europe. The G20 under Australia's leadership needs to persuade European leaders to undertake or to hasten programs of structural reform.

European canard

The task may not be easy. To understand why, we must step back a little into history. Soon after the Second World War, an attempt was made to rebuild Europe on the basis of what may be described as socialist capitalism. The underlying idea was that when the market is at a nascent stage, the state ensures that a labour market operates and makes jobs available. It also takes care of the elderly, and those without jobs, paying unemployment benefits and pensions through a benevolent social security system.

The objective is noble, but to pay for the system efficiently the government must collect sufficient funds through taxation. In a recession, when businesses are struggling and people are finding it hard to get a job, tax collections may be inadequate, and the government may have to meet its welfare objectives (that is, pay for the dole and pensions) by printing money or by borrowing. Both measures increase the budget deficit and the public debt. For economic efficiency, such programs should be temporary, not permanent, but politics tends to ensure that they remain in operation far longer than they are needed, and longer than is good for the economy.

A higher budget deficit can be sustained if an economy is growing. However, economic growth has been falling continuously in the euro zone — 3.4 per cent during the 1970s, 2.4

[5]Eurostat Database. Available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=namq_gdp_p&lang=en. Accessed on: 13/10/2014.
[6]Ostry, J. and A. Ghosh (2013), Obstacles to International Policy Coordination, and How to Overcome Them. International Monetary Fund Staff Discussion Note/13/111. Available at: https://www.imf.org/external/pubs/ft/sdn/2013/sdn1311.pdf. Accessed on: 26/09/2014.

per cent during the 1980s, 2.2 per cent during the 1990s, and around 1.1 per cent between 2001 and 2011. Without a concomitant increase in the productivity of labour or capital, it will be difficult for the European region to sustain higher deficits.[7]

One reason is a lack of institutional reforms. In a socialist capitalist structure, wages are protected by trade unions – irrespective of the productivity of labour and firms' ability to earn a profit. In addition, Europe's population is ageing, a trend that will continue. To maintain a stable population, 2.1 children should be born to each woman in an economy, assuming the average death rate applicable to the world's population. In some euro zone economies birth rates are much lower: 1.38 per woman for Greece, 1.39 for Spain, 1.41 for Italy and 1.94 for the UK. For Spain and Greece, the population aged over 65 will increase from around 17 per cent today to 25 per cent by 2030. The bottom line: Europe has fewer younger people to work, whose taxes will pay for its expensive welfare programs.[8]

For Europe, structural reforms are essential – reforms to labour and pension laws (so-called austerity measures), and loosening immigration laws. But to judge from poll results in 2012 and 2014, voters in France and Greece dislike reforms and punish parties which initiate them. A closer look at European democracies suggests they are run by insiders representing the interests of pensioners, trade union leaders, public sector workers and big farmers. Outsiders – the small numbers of immigrants, young people and small private entrepreneurs – have relatively little say.

It is a classic situation for a social democracy: insiders are myopic, care too much about their present benefits, and deliberately vote parties into power that support their cause, while outsiders are powerless. Flexible immigration laws might help reduce the shortage of young skilled workers – but changes to immigration laws are stalled. The brain drain from developing countries such as India and China has helped fuel economic growth in the United States, but not in Europe.

Lack of austerity measures to bring institutional reforms is reflected in an ever-increasing ratio of debt to GDP. During 2013, cumulative public debt as a percentage of GDP for many of the euro zone countries is already more than 100 per cent — 132 per cent for Italy, 175 per cent for Greece, 123 per cent for Ireland, 111 for Cyprus, and 129 per cent for Portugal. It will be to Europe's benefit if its nations prepare themselves for austerity measures. Otherwise, like Argentina during the 80s and Japan during the 90s, Europe faces a lost decade.[9]

The Abbott government in Australia favours creating the right conditions for private enterprise as the best way governments can increase job opportunities and raise productivity. For the G20 summit, member nations have undertaken to present ideas and programs to tackle issues including female participation, structural unemployment, informal employment and labour immigration policy. Through its presidency of the G20 Australia thus has the standing and the motivation to press European leaders to undertake structural reforms, including more liberal immigration policies. It will not however be an easy task. The Australian presidency favours creating the right conditions for private enterprise as the best way governments can increase job opportunities and raise productivity.

Australia will find an able partner in India, given the latter's experience with Mode-4 services. In the classification scheme of the WTO, Mode-4 services are those supplied by individuals present in person. The term is used to refer to the movement of natural persons, such as IT professionals, scientists and others, travelling from their own country to provide services in another country. The global mobility of workers with high-end skills is necessary to raise

[7]N. Banik (May, 2012), Europe Gaping at a Lost Decade, The Hindu Business Line. Available at: http://www.thehindubusinessline.com/opinion/article3408886.ece. Accessed on 03/06/2014.
[8]ibid (note 8).
[9] ibid (note 8).

labour productivity. Increasing labour productivity and lowering fiscal deficits are both necessary for growth to be sustained in future.

World leaders recognise this. The G20 summit in Toronto in June 2010 focused on the need for fiscal consolidation, with an agreement that advanced G20 deficit economies would at least halve their fiscal deficits by 2013, and stabilise or reduce their sovereign debt ratios by 2016. These commitments are to be complemented by ongoing structural reforms across all G20 members to rebalance and strengthen global growth. Leaders also agreed to conclude the work of the Basel Committee on banking supervision. They extended their pledge to refrain from imposing new protectionist barriers until the end of 2013, and reiterated their support for a successful end to the WTO's Doha round of multilateral trade talks.

Multilateral aid and voting power

At the same summit, G20 leaders also recognised the need to act on their commitment to infuse USD350 billion worth of capital into multilateral organisations. This funding is necessary for institutional reform in developing countries, especially to build their capabilities in trade facilitation[10] and tax collection. At present developed countries, including the United States and the countries of Europe, have more voting power in institutions such as the IMF and the World Bank. Voting power is derived from each country's contribution to these institutions, which depends in turn on how rich their economy is. A quota is assigned equivalent to the country's subscription to the IMF, and this determines its voting power.[11] In 2014 there are 188 member countries in the World Bank. However, the European Union has one-third of the voting power, and member countries of the Group of Eight have half the voting power. Voting power determines how much multilateral funding will flow to which region or regional allies.

Developing nations, including India and China, want this voting power reformed so that more multilateral aid can flow to countries in line with their needs, independent of voting power. India has also placed the reform of international financial institutions high on its agenda for the G20. The Fourteenth Quota Review of the IMF (December 2010) resulted in an agreement that would improve the voting share of developing countries, and would see them better represented on the IMF board. India is keen to see this ratification process completed as quickly as possible. Australia will have to maintain a fine balance between the emerging and industrialised worlds on the question of reforms to voting power at the IMF and the World Bank.

On the issue of development India also believes investment is needed in infrastructure such as roads, ports, and utilities (electricity, power station, dams, etc.). Investment in infrastructure in emerging countries will help them grow more rapidly in the medium term; it will also help to resurrect much-needed global demand. India believes the same unconventional approach that some central banks have used to monetary policy should be applied to build physical and social infrastructure. In the aftermath of the global financial crisis, industrialised countries have demonstrated that unconventional monetary policy can be used in innovative ways. With short-term interest rates near zero in developed countries such as Japan and the United States, central banks cannot use interest rates to manage monetary policy in a conventional way. Instead, central banks in developed countries have pursued the unconventional policy of printing money (quantitative easing), and buying assets on a large scale.

[10]Trade facilitation means undertaking measures that will improve the regulatory interface between government bodies and traders at national borders. WTO defines trade facilitation as: "The simplification and harmonization of international trade procedures" where trade procedures are the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for movement of goods in international trade".
[11]More information about voting power is available at: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:21429866~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html. Accessed on 30/06/2014.

At the St Petersburg G20 Summit (September 2013), India proposed that the World Bank and regional development banks such as the Asian Development Bank (ADB) create a special mechanism to ensure funds are made reliably available to finance infrastructure projects – in particular, ongoing projects for which funding may become blocked by volatile capital flows. Access to the mechanism should be available beyond the normal limit on a country's borrowings – or the system will become inflexible. The aim should be to increase the flow of infrastructure financing at times when other investments are slowing down. India believes that the active involvement of global financial institutions in critical areas, such as projects with long gestation periods, could often increase the flow of private investment to them.

Australian policymakers have also been vocal about increasing investment in infrastructure as a way to facilitate trade by reducing the costs associated with it, and to create more jobs. At the World Economic Forum at Davos (January 2014), the Australian Prime Minister, Tony Abbott, emphasised his willingness to work with other G20 members to increase investment in long-term infrastructure projects for precisely these reasons. Developing and less developed economies can at times lack the expertise needed to prepare the project reports required to attract infrastructure-related funds. Australia is keen to help these countries to prepare such reports. This would be of significant benefit for India, which has a huge infrastructure deficit.

Fighting bugs on their own turf: The case of India

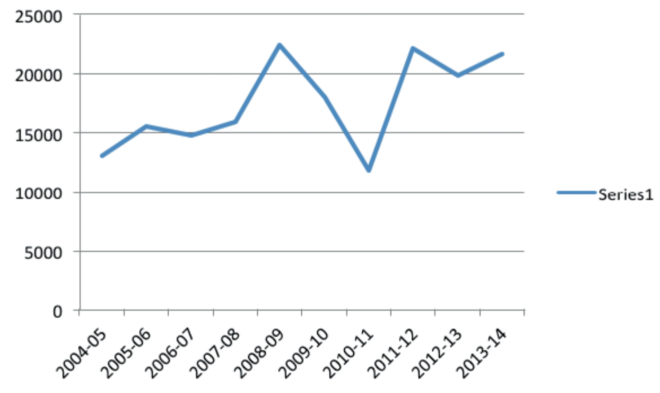
An alternative to multilateral funding for infrastructure is the public-private partnership. To attract private funds – domestic and foreign – developing nations need to remove distortions in their domestic economies. Multinationals can shy away from investing in developing nations despite the advantages many have in cheaper labour and land. Developed countries such as the United States and Western European countries get more multinational funding because their business rules are more transparent and the cost of doing business is lower. Flexible labour laws and mechanisation make labourers in developed countries more productive. State-of-the-art infrastructure such as roads, ports, electric grids, telecommunications, and banks, which is often lacking or poorly established in developing countries, is essential for business. Equally important is a country's tax regime, which should be business-friendly. Host countries should not change tax rules retrospectively or too frequently. To attract private funds, domestic distortions like these need to be removed. We consider domestic distortions in India, acknowledging that these factors may be present in other developing countries as well.

1. High cost of doing business

Although reforms in India are taking place, they are far from complete. Companies face a maze of government orders, regulations, rules and procedures, which raise the cost of production and hence affect exports. In its report Doing Business 2014, the World Bank placed India 134th out of 189 countries –worse than China (96th), Sri Lanka (85th), Bangladesh (130th), or Pakistan (110th) – in the convenience of doing business. Enforcing a contract in India takes an average of 1,420 days and involves 46 different procedures. Importing goods takes an average of 20 days and 11 documents. Tax payments have to be made on average 33 times

per year and the process takes 243 hours.[12] Figure 1 suggests, during the years following the financial crisis – between 2007 and 2010 – net foreign direct investment (FDI) inflow to India has fallen sharply. One reason for this is the high cost of doing business in India.

Figure 1: Net FDI inflows (Inflow less outflow in million $)



Source: Indian Economic Survey, Government of India (Various Issues).

2. Infrastructure

India has poor infrastructure. In 2014-15 the World Economic Forum's Global Competitiveness Index Report placed India 87th position out of 148 countries when competitiveness is measured in terms of infrastructure development.[13] India, however, performed relatively better (71st) in overall competitiveness, which takes into account other factors, such as a country's institutions, infrastructure, macro-economy, health, primary education, higher education and training, market efficiency and technological readiness.

India needs to invest more than USD320 billion in infrastructures. The sectoral figures in India's eleventh Five Year Plan (2007–12) include USD130 billion for power, USD66 billion for railways, USD49 billion for national highways, USD11 billion for seaports and USD9 billion for civil aviation.[14] The Indian Government, has set a huge target of doubling investment in infrastructure from INR20.5 trillion to INR40.9 trillion during the twelfth Five Year Plan period (2012–2017). Infrastructure investment is planned to increase to more than 10 per cent of GDP by the end of the period. To achieve this, investment from the private sector will be required. Within infrastructure funding, the private sector's contribution is only 36 per cent, compared with China's 48 per cent – even though China's GDP, USD8.3 trillion in 2012, is four times that of India (USD2 trillion in 2012).[15]

Unfortunately, private participation in infrastructure investment has fallen in recent times due to problems of regulation. Coordinating the interests of the various stakeholders has proved difficult. Delays in land acquisition, inter-ministerial coordination and clearance, shortages of funds, and contractual disputes have caused cost and time overruns in infrastructure projects. Except for telecommunications, sectors such as power, ports, aviation, railways, and roads are witnessing slow growth.

[12] Doing Business Report (2014), World Bank.
[13] World Economic Forum (2013). Available at: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf
[14] From a speech by the Minister for Finance of India, Mr. P. Chidambaram, at the London Business School on 28 June 2007. Available at: http://www.london.edu/facultyandresearch/researchactivities/birlaindiacentre/pastevents.html.
[15] OECD Country Reports (2013). Available at: http://www.oecd-ilibrary.org/economics/country-statistical-profile-china_csp-chn-table-en. Accessed, 03/04/2013.

As an example, a power sector project in India requires clearances from 56 different authorities and ministries from all three levels of government – federal, state, and local bodies such as village panchayats and municipalities. It must be cleared by numerous ministries,[16] each of which operates independently, and can delay its setting up. The National Democratic Alliance (NDA) government which came to power in May 2014 is contemplating merging ministries to speed up decision making.

As to how infrastructure improvements can boost growth, the stark example is the Golden Quadrilateral – a project started by the Atal Bihari Vajpayee-led NDA government in 2001 to build four- and six-lane highways to connect four metro cities, Kolkata, Chennai, Mumbai, and Delhi. Other major cities which were connected include Bangalore, Pune, Ahmadabad, Surat, and Kanpur. According to the National Highway Authority of India, 99.71 per cent of the project work was finished by January 2013. The impact of this road project has been telling. Travel time between Kanpur and Kolkata has fallen from 48 to 36 hours (*Business Today*, 2013).[17] In addition to the faster movement of goods and people, other economic benefits include wider choice of locations for new industrial activity and reduced wastage of agricultural produce.

3. Labour market

The lack of labour market reform is preventing India from fully benefiting from its demographic dividend and attracting foreign investment in labour-intensive modes of production. According to the Global Competitiveness Index 2013, India ranked 61st in 'cooperation in labour-employer relations'; this has deteriorated to 90th position in 2014. In 'flexibility of wage determination', its ranking has fallen from 50th to 113th. Labour relations in India need to be rationalised and made more flexible. The country has a large young working population, which explains its cheaper labour costs. However, existing labour market rigidities deter its manufacturing sector from hiring workers. Legislative authority for labour issues lies concurrently with both the central and state governments – which causes problems. State governments can amend central legislation or introduce subsidiary laws. The enforcement of many labour regulations – even those enacted by the central government – is a responsibility of state governments. Labour laws are not unified or harmonised across states. Even the definitions of wages, workman, employee, factory, and contract labour vary from one state to another. This variability allows wide differences of interpretation, and encourages corruption and rent-seeking activities. Firm owners become easy targets for labour inspectors.

4. Land acquisition

Obtaining land for infrastructure or for factories is a genuine obstacle to faster growth. Policies for releasing agricultural land for non-agricultural purposes should be designed so that farmers continue as stakeholders. Farmers do not want to give up their land because ownership of land gives them a sense of security, and a guarantee of future income. Land acquisition for infrastructure cannot be left to the market, because then transaction costs are much higher, particularly when the buyer has to negotiate with numerous tiny sellers and land records are patchy. Nor should it be left to the government, as the price the government offers can be quite arbitrary, and may not reflect the land's true value. When land is known to be needed, third parties can often intervene. Land brokers with strong political connections

[16]Ministries involved are coal, railways, environment, state environment committees, state pollution control boards, forest departments, central electricity authority, power grid corporation, central electricity regulatory commission, state electricity regulatory commission, state transmission commission, irrigation department, civil aviation, power ministry, port authorities, chief controller of explosives, customs department, and in some cases, clearances on account of impact on wildlife, coastal zone and archaeology.

[17]Business Today (2013). Highway to Prosperity. Page 16, May.

typically procure land in bulk before a project starts, and can often drive the price above the market price. Farmers, who may have willingly sold their land to the government and land brokers for the project, may start to agitate when they see price of land skyrocket after the project starts. Farmers' agitation over land acquisition in Greater Noida, Uttar Pradesh, during May 2011, followed this pattern. Those who had sold land willingly felt left out and cheated when the price of land increased many times after the Yamuna expressway connecting Delhi and Agra was completed.

Given the way the land market operates in India, the market price of land is not an adequate basis for compensation, nor does it guarantee the efficient use of a scarce resource. The economist Pranab Bardhan has put forward the concept of an independent, quasi-judicial regulatory authority to oversee land acquisitions. Many parts of India's economy, including telecommunications and the stock market, are subject to regulatory provisions. Land is another sector where a quasi-judicial body could operate effectively, regulating land transfers, and administering compensation and settlements independent of political influence but subject to periodic legislative review. Ghatak and Ghosh (2011)[18] argue that the problem can be solved through land auctions covering both the project area and surrounding farm land. If properly implemented this procedure would allow a farmer to choose compensation either in cash or in land, and to determine their own price instead of leaving it to the government.

In essence, if land is to be acquired without antagonising its original owners, those owners have to become stakeholders. This can be done by giving farmers part of the land once it is developed. Mayawati, a political leader from Uttar Pradesh, has promised to return 13 per cent of land in developed form to the original owners. Another way is to offer jobs, as Gujarat's former chief minister, now India's Prime Minister, Narendra Modi, did. A factory built on procured land employs one member from the family of the original owners.

The land acquisition bill passed on 29 August 2013 requires the consent of 80 per cent of landowners and those on government-assigned land when properties are acquired to set up private industry. The consent of people dependent on land for their livelihood is not required. For projects involving public-private partnerships, 70 per cent of landowners and those on government assigned land must consent within 12 months, and the government retains ownership of the land. Other provisions ensure that speculators who purchase land cheaply do not benefit from later high prices. Tenants living off share crops for longer than a certain period will also be compensated, with states to determine how compensation is paid.

5. Judiciary

Investors are unwilling to invest where governance is weak and legal disputes take a long time to resolve. In 2008, more than 50,000 cases were awaiting settlement in India's Supreme Court, more than 4 million cases in the high courts, and over 27.5 million cases in subordinate courts. The total of outstanding cases represented an average load of about 2,147 cases for every judge in the country. There is also a shortage of judges: too many judicial positions remain vacant. India has 14,576 judges, including 630 High Court judges, but 17,641 judicial positions. This represents a ratio of 10.5 judges per million people (Robinson, 2009).[19] This ratio will have to rise as literacy increases – which tends to raise rates of litigation. In Kerala, where literacy rates are among India's highest, court cases are rising by 28 per 1,000 population each year; in Bihar, where literacy rates are poorer, the rate is three new cases per 1000 people a year. The scarcity of judges is causing both large backlogs of cases and a

[18]Maitreesh Ghatak and Parikshit Ghosh (2011), *The land acquisition bill: A critique and a proposal,* Centre for Development Economics Working Paper No. 204, Delhi School of Economics, September.

[19]Robinson, N (2009). Expanding judiciaries: India and the rise of the good governance court. *Washington University Global Studies Law Review*, 8(1), 16-38.

greater acceptance of appeals. It is very easy to appeal from a lower court in India to a higher court. Between 2005 and 2008, around 12 per cent (6,900 cases out of 57,000) were accepted for hearing in the Supreme Court. For the United States the comparable figure is about 1 per cent.

6. Trade Costs

Trade costs are all the additional costs incurred in moving a good to the final consumer other than the marginal cost of producing that good. All types of cost, such as freight and time costs, information costs, contract enforcement costs, the costs imposed by the use of different currencies, language barriers, the lack of trade facilitation measures such as inadequate logistics for moving goods through ports, inefficient handling of customs documentation, lack of harmonisation of regulation standards, etc – all will be counted as trade costs.

Many trade costs in South Asia result from the lack of trade facilitation and the lack of physical infrastructure. Logistics costs in India for example are among the highest in the world (at 13 per cent of GDP). Inadequate infrastructure is responsible for holding back GDP growth by roughly 2 per cent, or $20 billion a year. If countries in South Asia raised their trade facilitation capacity to half that of East Asia, it is estimated average trade would increase by $2.6 billion. This is about 60 per cent of the value of regional trade in South Asia. The areas that would provide the greatest gains are service-sector infrastructure and air and maritime ports (Banik and Gilbert, 2010).[20] In the cost of trading across borders in 2013, India ranked 132 out of 189 countries, while Bangladesh, Nepal, Pakistan and Sri Lanka ranked 130, 177, 91, and 51, respectively.[21] For instance, trucks in India have to pass through multiple checkpoints and stop at state borders to pay tolls and octroi, as well as for inspections, etc. On the 2,150-kilometre journey between Kolkata and Mumbai, it has been estimated that a truck must stop at 26 checkpoints for as much as 32 hours (Deloitte–ICC, 2012).[22] South Asian countries also need to acknowledge one another's standards, and have easier customs clearance procedures.

Funding for development will come, but there is a need for reducing/eliminating domestic distortions.

Sustainable growth

Long before the Davos World Economic Forum meeting in January 2014, world leaders had shown a desire to formulate strategies to create jobs and maintain sustainable growth. The G20's Seoul summit (November 2010) produced the Seoul Action Plan which committed member nations to macroeconomic policies intended to ensure recovery and sustainable growth and to enhance the stability of financial markets. In particular, the G20 leaders agreed to develop guidelines for addressing large current account imbalances under a framework for strong, sustainable and balanced growth, and to pursue reform of the financial sector through an agreement on the Basel III package. Basel III is intended to strengthen banks' capital requirements by increasing liquidity and decreasing leverage. All these steps are important for averting another global financial crisis.

At the G20's Cannes summit (November 2011), discussion focused on the global economy,

[20]Banik, N. and J. Gilbert (2010). *Trade Cost and Regional Integration in South Asia* in D. Brooks (eds.), Trade Facilitation and Regional Cooperation in Asia, Edward Elgar, Northampton.
[21]Ibid (note 13).
[22]Deloitte-FICCI (2011). India ASEAN Free Trade Agreement: Implications for India's Economy. Deloitte-FICCI white paper.

particularly the euro zone debt crisis. Other issues included financial regulation, trade, jobs, food security, agricultural productivity and economic development. Specific outcomes of the Cannes summit included:

- the development of a country-specific action plan on growth and jobs to address short-term economic vulnerabilities and strengthen the medium-term drivers of growth
- a commitment to ensure the adequacy of the European Financial Stability Facility for EU members, and IMF resources for G20 members
- agreement to strengthen the regulation of shadow banking activities[23]
- endorsement of an action plan on food-price volatility and agriculture, aimed at improving agricultural production and productivity.

How financial stability and economic growth can lead to job creation was the central theme of the summit in Los Cabos, Mexico, in June 2012. It was in many ways similar to the Sydney summit of G20 finance ministers in February 2014, which signalled a strong message about the group's commitment to promote global economic growth and job creation. Among other outcomes of the Sydney summit, the group's finance ministers:

- established country-specific measures that each G20 member would take to strengthen demand, growth, and financial stability as outlined in the Los Cabos growth and jobs action plan
- reaffirmed G20 member pledges to augment IMF resources by USD456 billion, and to implement the 2010 IMF quota and governance reforms
- undertook to further the WTO Doha Round negotiations
- called for deeper analysis by multilateral organisations such as the WTO, the Organisation of Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) of the effect of restrictive trade and investment measures on global value chains
- made progress on the G20 development agenda, particularly on food security, financial inclusion, sustainable development, and inclusive green growth.

To make growth equitable, Australia co-launched and has committed AUD20 million to the AgResults initiative[24] aimed at enhancing food security for the poor. This initiative will underpin innovative partnerships with the private sector to improve food security and agricultural productivity in developing countries. As a prelude to the Brisbane summit (November 2014), the St Petersburg G20 summit (September 2013) focused again on job creation and economic growth. The main outcomes included:

- a commitment by all G20 countries to develop and share their growth strategies, as well as agreements to identify and implement specific measures to generate growth
- a commitment to improve employment opportunities through increased investment in infrastructure
- agreement to work more closely to reduce tax avoidance
- commitments to continue implementing the G20's ambitious reforms of financial regulation, including rules to tackle domestic and cross-border problems when big institutions fail, and to address the risks posed by financial institutions other than banks

[23]Shadow banking activities encompass credit intermediation outside the regular banking system, which allows borrowers to circumvent formal bank underwriting standards. As a non-transparent and less-supervised form of credit extension, shadow banking may stoke asset bubbles and pose risks to financial stability. As examples of these risks, large European and US banks have sustained massive losses in recent years from exposures to subprime lenders, structured investment vehicles, sponsored money market funds and other off-balance sheet conduits.
[24]AgResults is intended to reward scientific innovation in agriculture. Its objective is to overcome market failures, and encourage private and public sector innovators to foster products and services that would otherwise not come to the market. The idea was launched at the 2010 G20 summit in Toronto as the Agriculture Pull Mechanism or AGPM, and relaunched at the 2012 Los Cabos summit as AgResults.

- endorsement of the St Petersburg Development Outlook, prioritising investment in sectors that will play to the G20's advantage.

Basically, policy-level discussion focused on integrating the economy's financial sector (the money market) with the real sector (the goods market) with the objectives of making growth sustainable and curbing activities such as shadow banking. Better integrated financial and real sectors restrict the funds available for speculative activity.

Shadow banking and financial crisis

The financial crisis in the United States is a classic example of what happens when the links weaken between the financial and real sectors of the economy. It can be traced to the continuous overproduction of houses in the United States, and to the way financial engineers manipulated the housing and real estate markets through shadow banking activities. A housing boom, marked by continuously rising real estate and housing prices, accelerated at the turn of century and peaked in 2006. Low interest rates in the United States encouraged a general perception that property prices would continue to rise, and that any slackening would be temporary. Indeed, since the end of the Second World War, US real estate prices had risen for six decades. This assumption induced lenders to overlook the basic preconditions for a housing loan, such as a borrower's ability to repay, or prior credit records. Million-dollar loans were extended to borrowers without a job and living on social security.[25] Banks and other financial institutions believed that even if a borrower could not meet mortgage payments, the continued future appreciation in the price of real estate would take care of any potential default. The US Government-sponsored housing mortgage refinance companies Fannie Mae and Freddie Mac sold these mortgage-based securities to investment banks such as Lehman Brothers. Riding on this presumption of rising property prices, the financial market (that is, financial engineers) devised collateralised debt obligations (CDOs) – complicated securities based on pooled mortgages of varying maturities and risk ratings. CDOs became a major source of mortgage refinancing. The refinance of such pooled securities was done with highly leveraged debt. For example, Lehman Brothers, a leader in the CDO market, was leveraged 30:1. On average, CDOs generated USD50 billion every quarter in 2005, rising to USD175 billion by the last quarter in 2006 and through the first half of 2007. Foreign investors, primarily from Asia, invested heavily in these CDOs, which ratings agencies had rated AAA. The American International Group devised credit default swaps – derivatives providing protection in the event of a default of CDOs.

However, there was a black swan. In 2006, as measured by Standard & Poor's Case-Shiller Index, housing prices fell by an average of 15 per cent in 20 of the major housing markets in the United States. The decline continued, reaching 29 per cent in 2009. Once owners of real estate realised that property prices were not going to increase, those who were holding mortgages well beyond their ability to repay were happy to default – to walk away from the mortgage obligation and offer the homes for repossession. The market already had an abundant oversupply of houses. There were no takers for repossessed houses. When it became obvious that housing values were falling, delinquencies grew rapidly. At the same time banks and other financing institutions tried to get rid of the sub-prime (worthless) securities from their portfolios. The unbridled optimism that had ruled the market turned to panic – and the rest is history.

[25] Also termed as NINJA loans. NINJA stands for no income, no asset, and no job.

G20 leaders have realised stricter financial regulation is needed to curb shadow banking activities such as those revealed during the US financial crisis. When the crisis struck, the shadow banking market was more than twice the size of the traditional banking market. To set up, commercial banks require many clearances, especially from the central bank, and they operate under various norms such as Basel III. To set up shadow banking activities such as hedge funds requires far fewer clearances. Shadow banking activities must be similarly regulated by Basel III norms, to control their leverage ratio (before its collapse Lehman Brothers was highly leveraged), regulate margin requirements, and ensure they maintain an adequate ratio of capital to liquidity. If it is to promote a more resilient financial system, Australia as G20 President must make financial reforms a priority in four core areas directly related to the causes of the financial crisis, namely:

- making commercial banks more resilient
- helping prevent and manage the failure of globally important financial institutions
- making derivative markets safer
- improving oversight of the shadow banking sector.

Australia must also take the lead in sorting out variance in the implementation of Basel III. Policymakers in the West stress the need for increased buffers for both capital and liquidity, whereas those in the East are suggesting comprehensive coverage of risk management[26] and enhanced stress testing of banks. While it is important in developed countries to prevent commercial banks from failing, it is equally important to recognise the need in developing economies for greater financial inclusion – that is, ready access to banks, insurance, and loans. Both aspects – adequate liquidity and risk management – are necessary if business is to grow and the risk of economic downturn is to be to minimised.

For India also, financial stability is a key issue. As a member of the Financial Stability Board (FSB) under the G20 umbrella, India is committed not only to maintain financial stability programs for its domestic economy but also to participate along with the IMF and World Bank in joint financial sector assessment programs (FSAP) for other economies. An FSAP report *India: Financial Sector Stability Assessment Update* was published by the IMF in January 2013. The report recognises that the Indian banking system has remained largely stable on account of the controlled regulatory and supervisory regime of India's central bank, the Reserve Bank of India (RBI). However, there is scope for improvement. The assessment found gaps and constraints in the implementation of the regulatory and supervisory framework. The RBI has been striving to address these gaps and while it lacks *de jure* independence, there has been no *de facto* interference from the Indian Government. The RBI maintains that in India the same level of regulatory scrutiny is applied to both private and public-sector banks. While the RBI may have some differences of opinion with the FSAP, it is at one with it in promoting financial stability and is looking forward to a continuing dialogue with the IMF, the World Bank and other global counterparts on ways to improve the stability and effective supervision of the global financial system. Indian authorities are clearly committed to adopting international standards and best practices for financial stability in a phased manner, calibrated to local conditions. Hopefully, as the G20 leaders meet in Brisbane, a clearer picture will emerge of a coordinated policy framework to maintain the world's financial stability.

[26] Comprehensive risk management involves covering for risk associated with default. For instance, giving cattle loan (for buying cows/buffaloes) without providing health insurance for the cattle may make the poor farmers susceptible to loan default.

The uninvited

Capital flight

Poor integration of the monetary and real sectors of the economy may have other effects – capital flight, competitive devaluation, deficit financing, and protectionism. The problem of capital flight may arise when countries within any given region (Asia, Europe, and elsewhere) are not growing uniformly. As quantitative easing (QE) policies taper off in the United States, poor performing countries with open capital markets are vulnerable to outflows of capital. QE in the United States has prompted a massive influx of funds (short-term hot money) into emerging economies' markets leading to the appreciation of various asset classes including property, stocks and bonds. Brazil, China and Indonesia have all criticised the US Federal Reserve for creating asset bubbles in emerging economies, making them vulnerable to capital flight.

QE in the United States and Europe has not only exported inflation to developing and emerging economies but to some extent has been responsible for devaluing their currencies. How? When QE first began in the United States, investors started investing in both real and nominal assets in fast-growing emerging economies, most of which have relatively little private and public debt by the standards of high-income countries. As the real and financial sectors of their economies are poorly integrated, these additional funds flowing into the emerging economies did not increase their productivity, but instead raised the value of their currencies in the short run. With time, the raised value of their currencies started to hurt the export performance of emerging economies (markets) such as China. In addition, the flow of dollars into the domestic Chinese economy created inflation, which further reduced China's export competitiveness. This is particularly so as demand for China's exports, as for those of any emerging economy, is price elastic. These factors have led the Chinese central bank to devalue its currency.

Currency devaluation

Currency devaluation is linked to a country's export performance. The J-curve effect of currency devaluation has been well documented.[27] Immediately after a country devalues its currency, the volume of its imports and exports may remain largely unchanged in part because existing trade contracts have to be honoured. Moreover, in the short run, demand for more expensive imports such as oil and gold (and for exports, which are now cheaper for foreign buyers using foreign currencies) remains price inelastic. This is due to time lags in the consumer's search for acceptable, cheaper alternatives – which may not exist. Over the longer term, a devalued exchange rate can have the desired effect of improving a country's current account balance. Domestic consumers may switch their expenditure to domestic products and away from expensive imported goods and services, assuming equivalent domestic alternatives exist. Equally, many foreign consumers may switch to purchasing the products being exported into their country, which are now cheaper in the foreign currency, instead of their own domestically produced goods and services.

This provides the motivation for devaluation. In response to an 18.1 per cent fall in Chinese exports in February 2014 compared to a year earlier, China's central bank, the People's Bank of China (PBOC), has intervened to drive down the value of the Yuan against the US dollar. China's currency had depreciated by 2.8 per cent by the end of March 2014, almost erasing its gains of the previous year, and ending a period of steady gain that had lasted a decade.[28]

[27] For instance, refer to, Bahmani-Oskooee, M. (1985), Devaluation and the J-Curve: Some Evidence from LDCs. The Review of Economics and Statistics, p., 500-504. Also see, Hacker, S. (2003), Is the J-Curve Effect Observable for Small Northern European Countries? Open Economies Review, p., 119-134.
[28] Source: http://online.wsj.com/news/articles/SB10001424052702303949704579456583465285674

What is true for China is true for other economies as well. In fact, preventing currency wars between economies is now a main concern. China has a legitimate case. Chinese policy makers feel inflation created by quantitative easing has been responsible for the fall in their export competitiveness, and a rise in the price of imports. In February 2014, China's imports rose by 10.1 per cent, giving China a trade deficit of USD23 billion – its biggest in two years. [29] It will be hard to convince the PBOC not to devalue the yuan further without a promise from other G20 member countries not to trigger further rounds of devaluation.

As Eswar Prasad, a China expert at Cornell University and a former senior China official at the International Monetary Fund comments: "A fresh spate of currency tensions could ensue if the PBOC is seen as intervening heavily to keep the value of the yuan down. With capital beginning to flow back to some emerging markets, a weaker yuan could increase pressures on other central banks, especially those in Asia, to prevent their own currencies from appreciating."[30]

Why blame only China? Japan's economic recovery in 2013 was as a result of monetary easing and a dramatic fall in the yen's value. In an interview with *The Wall Street Journal* on the sidelines of the World Economic Forum in Davos (May 2013), the Governor of South Korea's central bank said any further depreciation of the Japanese yen would cause widespread pain to South Korean exporters.[31] The economic argument against competitive devaluation is that it is a strategy to export unemployment to trading partners, by showering them with cheap goods and destroying domestic production and jobs. With the world economy yet to emerge from contraction, such a tactic is not desirable.

This currency devaluation blame game is not restricted to countries in Asia. Brazil has complained that the United States and other industrialised countries are waging a currency war against them by artificially driving down the value of dollars, euros and yen. Officials in nations such as Argentina and Turkey are blaming foreign "vultures" and "the interest-rate lobby" for the sharp depreciation of their currencies.[32] An important agenda item for Australia will be how to stop this currency war from fomenting. It will have to bring onside two of its biggest trading partners – China and the United States. The recent sharp decline in the Chinese currency is threatening to exacerbate China's trade tensions with the United States and is raising concern over a potential currency war in Asia.

India has also suffered. The former Prime Minister, Dr Manmohan Singh, expressed concern at the St Petersburg G20 summit (September 2013) at how sudden increases in cross-border capital flows affect the exchange rate, credit volumes, and asset prices. Such flows had led to excess leverage in industrial countries before the global financial crisis which in turn led to stock market and exchange rate volatility in the emerging markets. Dr Singh suggested that capital volatility might harm the growth potential of emerging economies notwithstanding their adherence to flexible exchange rate regimes.

Deficit financing

There is another side of the story. QE tapering in the United States may prompt emerging economies to raise domestic interest rates to entice more capital from the developed economies. Countries may also start offering tax concessions and unnecessary subsidies. Both are inimical to growth. A rise in interest rates may hurt future growth. Tax concessions and unwarranted subsidies may worsen the current account balance. Emerging countries can never support sustainable growth through deficit financing, though this may not be true for the United States.

[29] Source: http://www.dailyfinance.com/2014/03/15/will-china-devalue-its-currency/.
[30] Source: http://online.wsj.com/news/articles/SB10001424052702303949704579456583465285674
[31] Source: http://online.wsj.com/news/articles/SB10001424052702303448204579338800064220782
[32] Source: http://www.nytimes.com/2014/02/08/opinion/currency-wars-revisited.html?_r=0.

Since the US dollar is an international currency it is easier for the United States to sell its debt, which may not be true for emerging economies. Emerging economies such as China want an alternative to the US dollar. China has pitched for a limited expansion of the IMF's current system of Special Drawing Rights (SDRs) through new issues, and through increasing their use in the IMF's mega-lending programs. A former member of the Monetary Policy Committee working at PBOC, Yu Yonging, said doing so would build on an earlier proposal made at the G20 London summit in April 2009 to issue SDRs equivalent to USD250 billion, which was then quickly implemented. In fact, China was in favour of issuing SDR150-250 billion annually (roughly USD240-390 billion at present exchange rates).[33] During its G20 presidency Australia should push this proposal, which would effectively reduce the pressure on the US dollar as the global reserve currency.

Protectionism

As the leader of the G20, Australia will also have to fight protectionism. When growth is not picking up countries tend to become more inward looking. The slump in global demand has made countries cautious about opening their markets further, and some governments are resorting to protectionist measures. The OECD in its *Report on G20 trade and investment measures 2009 states:* "The main risk is that G20 members will continue to cede ground to protectionist pressures, even if only gradually, particularly as unemployment continues to rise" (OECD *Report on G20 trade and investment measures*, p.6). Protectionism is not confined to one group of countries or trade policy instruments. It is becoming visible in higher tariffs and non-tariff barriers (NTBs) – mainly antidumping measures, and sanitary and phytosanitary sanctions – and even in subsidies to domestic producers.

It is should be noted that much of this discrimination against foreign commercial interests breaks no WTO rules. For example, some countries are increasing tariffs yet keeping them below the rates specified by the WTO. India's increase in tariffs for steel items in 2009 is a case in point ("Govt. to consider additional tax on steel imports", *The Economic Times*, 29 May 2009).[34] Similarly, countries are using NTBs on the pretext of safeguarding the health of their consumers and to stop predatory pricing strategies – again, perfectly permissible under WTO rules. In this vein, India has banned imports of a number of live animal products, including processed meat, eggs, pigs, etc., from the rest of the world because of the avian influenza (swine flu) virus.[35] India has also emerged as the largest user of antidumping measures, having initiated 68 antidumping investigations between January 2008 and June 2009.[36]

India's actions should not be looked at in isolation. The Global Trade Alert database has been documenting the cross-border implications of various state measures. In Asia, China has banned imports of Irish pork, Belgian chocolate, Italian brandy, British sauces, Dutch eggs, and Spanish dairy products. Indonesia has restricted imports by allowing entry points only through five designated ports and airports. Japan and South Korea have restricted foreigners from bidding for any government projects worth less than USD22 million. Generous agricultural subsidies in France, Germany, and the United Kingdom are nothing but protectionism.[37]

In the United States "Buy American" provisions were inserted in its USD787 billion economic stimulus package. The Obama Administration spent its first term focusing on priorities other than free trade. In September 2009 the administration imposed for three years additional

[33]Source: http://www.project-syndicate.org/commentary/a-modest-proposal-for-the-G20.
[34]Source: http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Govt-to-consider-additional-tax-on-steel-imports/articleshow/4593094.cms.
[35]Notification number S.O. 2208 (E) dated 28th August 2009, and issued by Department of AnimalHusbandry, Dairying and Fisheries, Government of India.
[36]Chad Bown (July 2009), Global Antidumping Database. Available at:http://people.brandeis.edu/~cbown/global_ad/ad/
[37]For detailed information about various protectionist measures taken during the current economic downturn visit: http://www.globaltradealert.org/.

duties on imports of tyres from China on the grounds that they were disrupting the US tyre market. This action harmed US consumers and Chinese producers in order to benefit the relatively small number of US workers in the tyre industry, but did nothing to advance the cause of trade liberalisation.[38] So far the Obama team has not developed a compelling and economically sound argument for open global markets. Meanwhile, groups that normally support the Obama presidency — labour, environment, and various other non-government organisations — have been doing a great deal of "community organising" in opposition to the free trade agenda. A 21 February 2014 article in Inside U.S. Trade reports that the StopFastTrack.com coalition (opposing free trade) has collected more than 600,000 petition signatures against legislation to provide fast-track negotiating authority.[39]

The G20 is aware of the problem of protectionism. At the Cannes Summit (November 2011), G20 members pledged to combat protectionism and to find ways to strengthen the WTO through parallel international trade negotiations outside the Doha Round. At the St Petersburg Summit (September 2013) leaders agreed to work in tandem to make the WTO's ministerial meeting in Bali successful and to take steps to fight protectionism.

Unfortunately, most of the multilateral negotiations stress the need to liberalise only trade in goods, without much mention of services. Yet there is a definite need to liberalise trade in services. When nations go through a growth slump they turn protectionist because of domestic political pressures. The collective response of the political class becomes less rational. Rather than liberalising trade, policymakers end up doing just the opposite. The short-term imperative of protecting existing employment and income outweighs the medium- to long-term objective of growing employment and income. Here, trade in services has advantages over trade in goods.

Instances of NTBs in the case of services are far fewer than for goods. Hence, the emphasis must be on services because the benefits of opening up services trade (Mode 1 to Mode 4 under the WTO framework) are many times greater than gains from liberalising merchandise trade. This is not to suggest that merchandise trade liberalisation should be ignored. But, the emphasis must be on services liberalization. Ghemawat (2011) argues that according to the mathematical model used by the WTO, the standard estimate of gains from removing the remaining barriers to global merchandise trade is about 0.5 per cent of GDP, which works out to $300 billion.[40] However, the potential gains from eliminating all cross-border labour mobility restrictions is 100 per cent of GDP. In reality, 100 per cent removal of restrictions on labour movement can never happen. However, Ghemawat (2011) poses this extreme case just to show that even a moderate easing of cross-border labour movement and liberalising of services will yield massive gains – several times those to be made from fully opening up merchandise trade.

Australia's take

At the Davos meeting (January 2014), the Australian Prime Minister, Tony Abbott, laid out what Australia intends to achieve during its stint as G20 president this year. Australia aims to give impetus to global trade by undertaking trade facilitation measures, to strengthen tax regimes through international coordination, to address infrastructure investment bottlenecks, and to improve financial regulation. Basically, Australia wants to build on the issues discussed at the St Petersburg summit (September 2013). The idea is to make the

[38]Dylan Matthews (October, 2012), How Obama's Tire Tariffs Have Hurt Consumers, Washington Post. Available at: http://www.washingtonpost.com/blogs/wonkblog/wp/2012/10/23/how-obamas -tire-tariffs-have-hurt-consumers//?print=1.
[39]Inside U.S. Trade (February, 2014), Civil Society, Labor Groups Churn Out Petitions, Letters Against Fast Track. Available at: www.insidettrade.com.
[40]Ghemawat· P· (2011)· World 3.0: Global Prosperity and How to Achieve it· Harvard Business Review Press· USA·

global economy more resilient to macro-economic shocks, and at the same time create the conditions for growth and jobs. In the aftermath of the financial crisis, many countries have relied heavily on fiscal and monetary policies to strengthen their economies. Australia intends to have the commitment the G20 leaders made at the St Petersburg summit encapsulated in a "Brisbane Action Plan". To be effective, these growth strategies need to look at practical ways to improve productivity and competitiveness, strengthen investment in infrastructure, encourage trade, make it easier to do business, and create employment opportunities.

Deputies[41] from around the world backed Australia's G20 agenda to promote jobs and growth, and to fight protectionism. A new Investment Working Group was set up at the G20 Sherpas[42] meeting in Sydney, Australia (December 2013), to provide impetus to global growth and investment. The deputies agreed that the new Investment and Infrastructure Working Group would look at practical initiatives to improve investment flows, particularly for infrastructure. Each G20 member is to produce a growth strategy by the Brisbane Summit (November 2014). The deputies discussed how the G20 could make tangible contributions to global growth through these strategies. Before the Brisbane summit (November 2014), G20 deputies are to complete key aspects of their work on financial regulation reforms, improving international tax arrangements, and ensuring emerging economies are represented more effectively at the IMF.

Effectiveness of the G20

A review of G20 summits since the financial crisis shows that the group has been fairly successful in implementing some of the major proposals it had devised, besides successfully returning stability to the financial world. First, the G20, with its Doha Lite package, ensured the success of the WTO Bali Ministerial Meeting. Doha Lite refers to a minimal set of issues related to trade facilitation and food security, which replaced the full agenda of the original Doha Development Round. The Doha Development Round commenced in November 2001, with the objective of lowering trade barriers around the world. It is yet to be concluded. Negotiations on the full Doha Development Round have stalled with disagreements on a number of major issues, such as agriculture, industrial tariffs, NTBs, services, and trade remedies. The G20's so-called Doha Lite package, turned the WTO's ministerial meeting in Bali into a success. Though the legal texts and technical parameters including rules are still to be finalised, the meeting succeeded in addressing the core concerns of emerging and developing countries on maintaining public stockpiles of food grains for sale to poorer citizens at subsidised prices beyond permissible subsidy limits, in anticipation of a permanent solution. Some obstacles remain. India is trying to stall implementation of the WTO's trade facilitation agreement, agreed to in Bali. It has tied ratification of the agreement to a permanent solution to the contentious issue of public stockpiling of food grains. However, following Narendra Modi's visit to the United States in September 2014, and his subsequent talks with President Obama, India may finally sign the Trade Facilitation Agreement. As part of a revised proposal, India and the United States are reported to be discussing the details of an indefinite peace clause on food security until a permanent solution is found. A peace clause would give legal security to member countries and protect them from challenges under other WTO agreements.

[41] In G20 parlance a deputy is a senior official who advises a country's finance minister or central bank governor and represents them at preparatory meetings.
[42]Sherpas are the persons representing head of states and governments, who prepare agendas before G20 ministerial meetings.

Second, the meeting agreed on measures to make it easier and cheaper for developing countries to trade, in particular helping manufacturing units in developing and emerging economies to integrate into regional and global value-chain networks. A World Bank study estimates that ensuring compliance with this trade facilitation agreement itself would cost each country between EUR123,000 and EUR970,000 for capacity-building and technical assistance, excluding the cost of equipment and staff.[43] According to an OECD report, with staff and equipment the price rises to between EUR3.5 million and EUR19.7 million over next three to five years (that is, EUR11.6 million on average).[4] Developing countries lack the necessary resources.

And then there is the cost of implementation.[45] The EU estimates that EUR100 million worth of funding is needed to implement the procedural elements of the trade facilitation agreement across all countries.[46] Taking into account the cost of staff and equipment, about EUR1 billion will be required over the next five years. At the Bali meeting, the EU's Development Commissioner Andris Piebalgs and Trade Commissioner Karel De Gucht undertook to cover a significant share of this funding need for developing countries. The EU promised EUR400 million over five years in response to requests from developing countries for the resources to enable them to comply with the trade facilitation measures. Besides the EU, other major members of the G20, half of which are from emerging economies, should also contribute. Australia, as host to the 2014 Brisbane G20 Summit is eminently qualified to play a proactive role here. It has already actively promoted discussion about trade as an important source of economic growth and job creation.

Third, the G20 group has been fairly successful in strengthening and implementing the 'automated tax information exchange' plan, aimed at preventing cross-border tax avoidance and tax evasion. During September 2014, at the end of a two-day meeting of finance ministers and central bank governors in Cairns, Australia, the G20 agreed to put an end to tax evasion through an automated tax information exchange system by 2017–18. Such a system of sharing tax related information among member countries will put pressure on offshore financial centres that facilitate tax evasion. Finance ministers also agreed to take forward the OECD's latest Base Erosion and Profit Shifting (BEPS) action plan by 2015, a move that will make it difficult for multinationals to shift profits from one country to another, to save taxes. It is to be noted, multinationals with a presence in many countries prefer to show larger profits in low-tax jurisdictions, and lower profits where tax rates is higher. For example, consider a multinational firm X with three subsidiaries, say, A in India (with a high tax regime), B in Mauritius (a tax haven) and C in Australia (a high tax regime). By following a pricing policy where subsidiary A sells its product to subsidiary B at an artificially low price (resulting in a low profit in India), and subsidiary B in turn sells its product to subsidiary C at an artificially high price (resulting in high profit in Mauritius), the end result will be that this multinational firm will pay very little tax. It is well known that many multinational firms operating in India invest indirectly through favourable tax jurisdictions such as Mauritius and Singapore to avoid paying taxes. With the BEPS action plan in place, multinationals operating with subsidiaries in tax havens will find it more difficult to avoid taxes this way. BEPS would facilitate a systematic and periodic transmission of bulk taxpayer information by the source country of income to the country of residence of the taxpayer concerning various categories of income and asset information, making it easier to monitor tax avoidance and tax evasion.

[43]World Bank (November 2006), Needs, Priorities and Costs Associated with Technical Assistance and Capacity Building for Implementation of a WTO Trade Facilitation Agreement, A comparative study based on six developing countries. Available at: http://siteresources.worldbank.org/INTTLF/Resources/Needs_and_Priorities.pdf
[44]OECD (2012), The Costs and Challenges of Trade Facilitation Measures, OECD Working Paper TAD/TC?WP(2012)25. Available at: http://www.oecd.org/dac/aft/TheCostsandChallengesofTradeFacilitationMeasures.pdf.
[45]Here we are talking about cost of implementing trade facilitation measures. Capacity building in terms of training the requisite officials and technical assistance for providing a better computer technology which will complement trade facilitation measures will be part of this cost.
[46]Source: http://europa.eu/rapid/press-release_SPEECH-13-1031_en.htm.

Tailpiece

India for its part should cooperate with Australia to make the Brisbane G20 summit a success. At present, growth has slowed in India. An important reason is a lack of investment in infrastructure. Private investment, including foreign direct investment, has slowed. This is primarily because India's government has changed its policy and rules too often. Some events since March 2012 have seriously dented India's image as a favourable investment destination. One is the much talked-about Vodafone case, where the India's central government retrospectively changed the tax laws to penalise the United Kingdom-based telephone giant. A second is the cancellation of 2G mobile licenses, which sent a clear signal to the international business community about the uncertain policy environment in India. A third is introduction of General Anti-avoidance Rules (GAAR) in the 2012 Budget, which spooked foreign investors. Fourth is the case of South Korea's steel major Posco, which obtained approval a decade ago for a USD12 billion steel plant in Orissa, yet to be made operational. Fifth, in 2013, the Delhi State Government under the Aam Aadmi Party reversed a previous Congress government decision to allow foreign direct investment in multi-brand retail. To cut a long story short, a clear policy direction is needed for India to benefit from the Australian presidency.

Australia has rightly said investors need to know that governments will not change or tinker with the rules after investments are made. Again, Australia's suggestion that tax systems be reinforced to ensure fairness is a worthy goal. Clarity in tax policy is essential to prevent money laundering and to undermine the black economy. Avoidance of legitimate tax through transfer pricing and other strategies should be stopped.

India should underpin this Australian initiative through its own assent and also by not changing investment rules and tax policies retrospectively. Structural reforms and attracting investment in infrastructure are essential to move India to a higher growth path. Investment is important considering India's abundant demographic dividend. Fortunately, the newly elected National Democratic Alliance (led by the Bharatiya Janata Party) has shown it is committed to pursuing necessary economic reforms (See Annexure A).

Australia can serve as a natural partner for India by providing the capital required for both social and physical infrastructure. India's long drawn out power shortage is due to end now that India has signed a civil nuclear deal with Australia. Under this agreement, signed during September 2014, Australia will export uranium to India for its civil power generation. Energy-deficient India gains access to a fuel supply for its nuclear energy program so it can beat chronic power outages.

The return on capital (real rate of interest) in Australia is low. Australian capital will have better returns when invested in physical infrastructure in India. As the level of capital already deployed in India is low, the return on additional capital investment will always be higher in India than in other ASEAN countries or in China.

There is therefore value in this partnership. And indeed, Australia-India cooperation has gone beyond energy to areas ranging from defence collaboration to science, water, education and skills (See Annexure B). Australia's formula for growth through public-private partnerships merits the support of other G20 economies, both advanced and emerging, including India.

ANNEXURE A

India's proactive 2014 NDA government

Initiatives taken by the Indian Prime Minister, Narendra Modi, since his election in May show his government is keen to introduce reforms which transform India into a better place to do business. Below are some of the initiatives that NDA government has undertaken during its first 100 days in power.

1. Reforms to investment and labour rules

The Modi Government has allowed increased Foreign Direct Investment (FDI) in the areas of defence, insurance, and railway infrastructure. The FDI cap on the defence and insurance sectors has been raised from 26 per cent to 49 per cent; for the railway infrastructure sector, government has allowed 100 per cent FDI. The government has also shown a readiness to move quickly on previously stalled policy measures, in areas including retrospective taxation, a goods and services tax (GST), and labour market reforms. With centre-state discussions about a GST entering into their final stage, there is a strong likelihood that the GST will start from 1 April 2016.

The new government has acknowledged the need for reform of India's labour market. Here, some state governments have already made progress. The Rajasthan government of Vasundhara Raje has taken the lead by clearing state-level amendments to three archaic central government labour laws – the Industrial Dispute Act, Contract Labour Act, and the Factories Act. Following suit, Haryana is also set undertake these amendments, which reformists have long argued will help create jobs.

2. Building the 'Made in India' brand

The 'Make in India' initiative is intended to turn India into a manufacturing hub for the world. Among other things, for the first time it gives a strong signal that the government means business, and intends to deliver its promises. For the economy, in which manufacturing growth has been negligible for the past two years and must be revived if growth is to be scaled up, the program's implications are important. States such as Andhra Pradesh, Haryana, Gujarat, Rajasthan, Karnataka, Maharashtra, and Tamil Nadu stand to benefit as they are development focused – as will regions where land acquisition is less of a hurdle to development. Other states will also be encouraged to create and implement attractive industrial policies and improve infrastructure so as to provide more balanced growth across the country. Mr. Modi has promised to alter India's image across the world "with the five Ts: talent, tradition, tourism, trade and technology." He has already been able to garner investment promises from Japan, China and the United States, to the tune of USD35 billion, 20 billion, and 41 billion, respectively.

3. Diamond quadrilateral, bullet trains, and 100 smart cities

For the 'Make in India' campaign to work, India must build world-class infrastructure. The best example to show how infrastructure improvements can boost growth is the Golden Quadrilateral. This project, started by the Atal Bihari Vajpayee-led National Democratic Alliance government in 2001, planned to build four- and six-lane highways to connect four metro cities, Kolkata, Chennai, Mumbai, and Delhi. According to the National Highway Authority of India, 99.71 per cent of the project work was finished by January 2013. The impact of the new road links was telling. Travel time between Kanpur and Kolkata has fallen from 48 to 36 hours. Mr Modi has promised to build a Diamond Quadrilateral, connected by high-speed rail. The Bharatiya Janata Party (BJP) could announce high-speed rail soon on the Mumbai-Ahmedabad and New Delhi-Patna sectors. Japanese investors have already expressed willingness to fund the Mumbai-Ahmedabad link at an estimated cost of USD10.5 billion.

Mr Modi has promised to set up 100 smart cities. This plan is an extension of one he implemented as chief minister in Gujarat, promising to bring in hundreds of thousands of jobs through the construction and development of new urban spaces. It is important considering India's abundant young labour force. In average age, India's population is one of the world's youngest, so creating jobs is necessary for sustainable development. Land is a crucial prerequisite for building smart cities and new infrastructure. The previous United Progressive Alliance government succeeded in passing the land acquisition bill; it remains to be seen how the BJP government handles and implements the legislation.

4. Financial Inclusion

At present, only 58 per cent of Indian households have access to banking services. Even though India's 14 largest commercial banks were nationalised in July 1969, financial inclusion for India's poorest citizens has remained an elusive goal. With the objective of giving poorer citizens access to the financial system, including savings accounts and loans, the government has launched the Jan Dhan Yojana (JDY) initiative. The initiative, spearheaded by the Prime Minister's office, has a target of opening millions of bank accounts by January next year. Indians will be able to open zero-balance accounts with any bank, public or private, with minimal documentation. An Aadhaar card (the 12-digit individual identification number issued by the Unique Identification Authority of India on behalf of the Government) is proof enough to open a Jan Dhan account on the spot.

5. Fighting domestic distortions

India's Minimum Support Price (MSP) for agricultural products was set up originally to guarantee farmers' incomes. Regular increases however have become a primary cause of inflation in the country. The Government has recognised this, and is likely to reduce the MSP and eliminate restrictions on the movement of agricultural goods, fruit and vegetables across states. To complement the 'Make in India' campaign, the government is also likely to relax the restrictive provisions of India's land acquisition laws, so that land for infrastructure and affordable housing is more easily acquired.

6. A clean Ganges and river connectivity

Two of Mr. Modi's top priorities are to clean the river Ganges, and to link all of India's rivers. The former is motivated by the need for a cleaner environment, the latter by the desire to solve India's chronic water shortages. Though both tasks are complex, particularly given the problems of sharing water between Indian states, an important start has been made.

The Ganges basin constitutes 26 per cent of India's land mass. Major cities in the basin — including Delhi, Agra, Meerut, Kanpur, Lucknow, Varanasi, Allahabad, Patna and Calcutta — generate and discharge huge quantities of wastewater into the river. The economic impact of River Ganges can be gauged from the fact that it supports the livelihood of 29 cities with a population of above 0.1 million, 23 smaller cities with a population between 0.05 and 0.1 million, and 48 towns with fewer than 0.05 million inhabitants each.

Mr Modi has established a separate ministry to manage river water cleanliness, with a special emphasis on the Ganges. His Finance Minister, Arun Jaitley, in his first budget announced an ambitious USD33 million 'Namami Ganga' project to rejuvenate the polluted waters of the river within three years. Israel has already expressed interest in sharing its expertise in water purification and wastewater treatment.

7. Better governance

As a step towards improving governance, Mr Modi launched a website, MyGov (http://india.gov.in/my-government). MyGov is a technology-driven medium that will let citizens contribute ideas towards good governance and sustainable development. Ideas shared by contributors can be discussed in forums, allowing constructive feedback and interaction. At present, the platform allows discussion of six subject groups – Clean Ganga, Girl Child Education, Clean India, Skilled India, Digital India and Job Creation. The website's impact is yet to be assessed.

Mr Modi has also reshuffled his bureaucrats in a bid to improve governance. On September 23, nearly 50 bureaucrats, mainly joint secretaries, were reassigned to different tasks. The changes followed an elaborate evaluation of each officer's experience, achievements, strengths and potential – a corporate-like exercise managed by the Prime Minister's Office.

8. Clean India

Mr Modi launched the Swatchh Bharat mission on October 2, aimed at creating a 'Clean India' in the next five years., At an event to mark the anniversary of Mahatma Gandhi's birth, Mr Modi wielded a broom to publicise his campaign to persuade Indians to make cleanliness a mass movement. The mission is intended to counter the perception that Indian cities are not very clean places. According to Census 2011, only 32.7 per cent of rural households had access to toilets . Some schools in rural areas also lack toilets. A UN report released this year stated that India continues to have the largest number of people in the world defecating in the open. The success of Clean India campaign will have a telling effect on India's development.

ANNEXURE B

Joint statement on the state visit of the Prime Minister of Australia to India

September 05, 2014

1. The Prime Minister of Australia Mr Tony Abbott paid a State Visit to India from 4–5 September, 2014 at the invitation of Prime Minister Shri Narendra Modi.
2. Prime Minister Abbott was accorded a ceremonial welcome at the Rashtrapati Bhavan on 5 September, 2014. He laid a wreath at the memorial to Mahatma Gandhi at Rajghat and also laid a wreath at India Gate.
3. Prime Minister Modi held talks with Prime Minister Abbott on bilateral, regional and multilateral issues. Prime Minister Abbott called on President Shri Pranab Mukherjee and Vice President Shri Hamid Ansari and received External Affairs Minister Smt Sushma Swaraj. Prime Minister Abbott also visited Mumbai where he called on Governor Shri C. Vidyasagar Rao. He met with Indian business leaders in Mumbai and Delhi. Four Agreements/Memoranda of Understanding were concluded and significant initiatives launched during the visit.

Bilateral cooperation

4. The Prime Ministers welcomed the rapid growth in bilateral relations in recent years, anchored in shared values, expanding economic engagement, converging strategic interests and a growing shared agenda in regional and multilateral institutions.
5. The Prime Ministers affirmed their commitment to strengthening the bilateral Strategic Partnership and taking it to a new level of mutual trust.
6. The Prime Ministers welcomed the signing of the bilateral Civil Nuclear Cooperation Agreement as a concrete symbol of the bilateral partnership. They noted the Agreement would enable the sale of Australian uranium to support India's growing energy needs and directed the negotiators to conclude the Administrative Arrangements at an early date.

Economic engagement

7. The Prime Ministers underlined the priority they attached to building the economic partnership, which was a pillar of the relationship. They recommitted both countries to expand trade further for mutual benefit and as a long term and sustainable boost to economic growth in both countries. They agreed there was significant scope to boost investment and collaboration in both directions in infrastructure, resources, agriculture, manufacturing, health, education and other sectors to increase efficiencies, introduce new technologies and develop innovation and skills.

8. Prime Minister Abbott welcomed growing Indian investment in Australia and underlined Australia's commitment to providing a stable investment environment and streamlined approvals process. Prime Minister Modi too welcomed Australian investments in a range of infrastructure, resources, technology and other projects in India.
9. The Prime Ministers welcomed the progress towards a Comprehensive Economic Cooperation Agreement (CECA) which would support a significant expansion of two-way trade and investment. They renewed the commitment of both countries for an early conclusion of an equitable, balanced, comprehensive and high quality agreement.
10. The Prime Ministers noted the expanding bilateral dialogue on economic policy, including in areas such as taxation, competition, financial sector regulation and infrastructure.
11. The Prime Ministers welcomed the delegation of senior Australian business leaders who had accompanied Prime Minister Abbott on his visit. They agreed that economic engagement and business partnerships should be strengthened through a revitalised CEO Forum and encouraged regular exchange of business and trade missions and the convening of an India-Australia Business Summit in Delhi in early 2015.

Defence and security cooperation

12. The Prime Ministers reaffirmed their desire for a peaceful, prosperous and stable Asia-Pacific region, underpinned by cooperative mechanisms. They emphasised their interest in building closer cooperation in the maritime domain.
13. The Prime Ministers committed to strengthening the defence and security partnership. They welcomed growing cooperation in defence, counter-terrorism, cyber policy, transnational crime, disarmament and non-proliferation, humanitarian assistance, disaster management and peacekeeping. They called for deepening the framework of defence and security cooperation to guide the bilateral engagement in these and other priority areas.
14. The Prime Ministers welcomed preparations for the inaugural bilateral maritime exercise to be held in 2015 and initiatives under way to further strengthen defence cooperation, including closer engagement and cooperation in defence science and industry. They also explored joint participation in events commemorating World War I. On behalf of the Prime Ministers of Australia and New Zealand, Prime Minister Abbott extended an invitation to Prime Minister Modi to attend the commemoration of the 100 year anniversary of Gallipoli in 2015.
15. The Prime Ministers, noting that both Australians and Indians have been victims of terrorism, commended the work of the Joint Working Group on Counter-Terrorism, including discussions on cyber security and the growing collaboration against the threat posed by terrorist groups. They noted the ongoing cooperation in combating illegal migration.
16. The Prime Ministers, noting the importance of the maritime dimension, welcomed discussions on maritime security in the ongoing disarmament and non-proliferation dialogue held at the level of officials.

Cooperation in energy, science, water, education and skills

17. The Prime Ministers agreed to deepen the cooperation between both countries on energy security through a ministerial-level dialogue. They agreed to develop a strategic partnership on energy and resources based on long-term, sustainable and reliable supply of Australian resources based on India's energy needs. They agreed that cooperation on energy – extending to coal, LNG, renewables and uranium – and on resources such as iron ore, copper and gold were key elements of the relationship and committed to intensifying these links.
18. The Prime Ministers welcomed the success of the Australia-India Strategic Research Fund, which has provided a high impact knowledge partnership through science and technology cooperation, and announced an extension of the Fund for a further period of four years on the basis of matching commitments and reciprocity with an increasing focus on commercialisation of research outcomes.
19. The Prime Ministers welcomed increasing collaboration on the challenge of managing scarce water resources and river basin management and announced an extension of the MoU on water cooperation. Prime Minister Modi welcomed Australia's offer to support India's Ganga rejuvenation efforts.
20. The Prime Ministers agreed to expand high quality knowledge partnerships in education, skills and research that support mutual efforts towards greater economic and social progress. They noted its vital role and contribution to India's national goals for innovation, productivity and growth.
21. The Prime Ministers welcomed the collaborations between Universities and called for efforts to enlarge the scope for joint research, joint Ph.D. programmes and joint degrees and commended the work of the Australia-India Education Council (AIEC) in advancing education, training and research partnerships. Prime Minister Modi expressed appreciation for the continuing efforts of Australian authorities to ensure the welfare and security of Indian students studying in Australia.
22. The Prime Ministers welcomed the increasing collaboration to develop a quality skills training framework in India. Prime Minister Abbott underlined Australia's commitment to supporting the up-skilling of India's workforce, including through Australia's world class vocational education and training (VET) capabilities. The Prime Ministers welcomed partnerships between India's Sector Skills Councils and Australia's Industry Skills Councils in key industry areas.
23. The Prime Ministers welcomed the Australian Government's New Colombo Plan initiative, under which young Australian students would study in institutions in India, thereby furthering youth and academic exchanges and promoting contacts.

Regional and international cooperation

24. The Prime Ministers discussed the importance of consolidating the G20 as the premier forum for international economic cooperation. Prime Minister Abbott briefed Prime Minister Modi on Australia's priorities as host of the G20 in 2014 and underlined Australia's interest in working closely with India to lift ambition and ensure the G20 delivers economic growth, jobs and a resilient global economy. Prime Minister Modi appreciated Australia's chairmanship and underlined India's commitment to the G20's

successful contribution to ensuring strong, sustainable and balanced growth of the global economy.

25. The Prime Minters recognised the importance of the East Asia Summit (EAS) as the pre-eminent regional forum for addressing strategic, political and economic issues. They welcomed increased bilateral collaboration in the EAS, with India and Australia co-chairing the Taskforce on Access to Quality Medicines under the Asia Pacific Leaders Malaria Alliance.
26. The Prime Ministers acknowledged ongoing cooperation in other regional bodies such as the ASEAN Regional Forum and the Asia Europe Meeting. Prime Minister Abbott reiterated Australia's support for India's membership of the Asia Pacific Economic Cooperation forum (APEC).
27. The Prime Ministers highlighted the concrete steps towards more effective practical cooperation in the Indian Ocean Regional Association (IORA) and noted that India and Australia would work closely to further strengthen the organisation in the six priority areas of maritime security and piracy, fisheries management; disaster risk reduction; tourism and cultural exchanges, academic and S&T cooperation, and trade and investment facilitation. Both countries look forward to taking this collaboration to a higher level at the next Council of Ministers meeting in Perth in October 2014.
28. The Prime Ministers reaffirmed the importance of reform of the UN, including the Security Council, to better reflect contemporary realities. Prime Minister Modi welcomed Australia's continuing support for India as a permanent member in a reformed United Nations Security Council.

People to people and cultural links

29. The Prime Ministers highlighted the importance of bilateral parliamentary exchanges and agreed to reinvigorate reciprocal visits by parliamentary delegations.
30. Underlining the importance of greater connectivity to support growing commercial and cultural ties, including in the education and tourism sectors, the Prime Ministers welcomed the commencement of direct Air India flights to Australia. Noting the growing numbers of tourists travelling in both directions, they welcomed the decision to commence negotiations on a Memorandum of Understanding on Tourism.
31. The Prime Ministers noted progress in negotiations on the Social Security Agreement and called for early conclusion. Noting the importance of promoting exchanges, particularly among the youth, they also called for discussions on a Work and Holiday Visa Agreement.
32. The Prime Ministers recognised that rapidly growing people-to-people links underpin our developing partnership and will enable both countries to build even stronger relations into the future. They noted with appreciation that the Indian community is contributing significantly to the economic and social life of Australia, with India now the largest source of skilled migrants to Australia.
33. The Prime Ministers noted that arts, culture and sports can be powerful forces for bringing people together and called for closer and more intensified exchanges in the fields of culture and creative arts, including visiting exhibitions and professional training and exchanges. They welcomed the establishment of ICCR Chairs of Indian Studies in

five Universities in Australia to promote academic and student exchanges and Australia's support in the establishment of a Nalanda University Chair in Environmental Studies. They also welcomed the signing of an MoU on Sports Cooperation that would facilitate greater exchanges, including on sports training.

34. The Prime Ministers welcomed progress on negotiations for an Agreement on Transfer of Sentenced Persons and looked forward to its early conclusion.

Agreements

35. The following bilateral memoranda of understanding were signed in the presence of the two Prime Ministers:
    i. Cooperation in the Peaceful Uses of Nuclear Energy
    ii. MOU on cooperation in Sport
    iii. Renewal of MOU on cooperation in the field of Water Resources Management
    iv. MoU on Cooperation in Technical Vocational Education and Training (TVET)

36. Prime Minister Mr Tony Abbott renewed his invitation to Prime Minister Shri Narendra Modi to visit Australia. Prime Minister Modi accepted the invitation to undertake a bilateral visit to Australia at the time of the G20 Summit in November 2014. Both sides agreed that the visit of Prime Minister Modi to Australia will lead to strengthening of the cooperative relations between the two countries, and will provide further impetus for the future development of the strategic partnership.

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