Indian Council for Research on International Economic Relations

7th Annual G20 Conference

Challenges to Strong, Sustainable and Balanced Growth: Views from G20 countries

September 14 - 15, 2015

New Delhi

G20 Conference Report

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The last eight years since the global financial crisis have been quite eventful and challenging for everyone, especially policy makers. Crises, one after the other, have tested the 'too-big-to-fail' perception, challenged existing policies and led to the adoption of unconventional ones. Several attempts at policy reorientation have put the economy back on the growth path, but the recovery remains weak.

The leaders' level G20 has been an instrumental platform for integrated and coordinated discussions on global economic and financial issues since the global financial crisis of 2008. With a focus on reducing risk and volatility in international financial markets, controlling unemployment, supporting an open trade and investment regime, the G20 has been working towards achieving its objective of strong, sustainable and balanced growth. In 2014 the finance ministers of the G-20 set themselves an objective of increasing world GDP by 2 percentage points—or about $1.5 trillion—over the next five years, over and above the current "business as usual" trend.

Every year since 2009, ICRIER has been organizing an Annual International G20 Conference, bringing together academics and key policy makers from the G20 member countries to deliberate on pressing issues that concern economic co-ordination and development across countries. The proceedings of the past conference have been widely circulated and served as an input for policy.

On September 13-14, 2015, ICRIER with support of International Monetary Fund (IMF), The World Bank, Asian Development Bank Institute (ADBI) and Konrad Adenauer Stiftung (KAS) organised the 7th Annual International G20 Conference in New Delhi. The conference reflected on the Turkey G20 priorities of "Inclusiveness, Implementation, and Investment" that are at the heart of the current global challenges and these were the focus of attention in our conference.

The conference hosted speakers from academia, governments, think tanks and corporate in India and from abroad. Some of the eminent speakers at this year's conference were Sri Suresh Prabhu, Hon'ble Minister of Railways, Government of India; Sri Shaktikanta Das, Secretary, Department of Economic Affairs, Ministry of Commerce, Government of India; Dr. Naoyuki Yoshino, Dean, ADBI; Ms. Sindhushree Khullar, CEO, NITI Aayog; Ambassadors of Turkey and Australia to India etc.

All the sessions were extremely interesting and stimulating and were well attended with participants from various think tanks, academic institutions, private organizations and the government sector.

The conference commenced with an inaugural speech by Shri Suresh Prabhu, in which he talked about the significance of global integration in creating benefits for all countries of the World while pointing out various challenges it poses. These include issues like effects of monetary policy of US on smaller countries and China's currency devaluation on the rest of the world. The importance of social concerns such as jobs creation into market growth was also pointed out. All the speakers stressed on the importance of increase in infrastructure investment, as it would benefit the global economy by reducing the bottlenecks in emerging markets and spillovers in source countries He also said that the china's currency devaluation is another worrying factor for global markets apart from Fed's rate rise. In the context of Fed's rate rise, he mentioned that a structured institutional arrangement must be in place to ensure that monetary policies of one country do not negatively impact the others.

The inaugural speech was followed by a keynote address by Shri Shaktikant Das in which he talked about India's preparedness for Fed rate hike and he also added, Government is hopeful that India's growth rate during 2015-16 will exceed 7.5 percent. The keynote address also saw massive media coverage.

Dr. Naoyuki Yoshino delivered a special address in the inaugural session, where he spoke about the sustainable growth and infrastructure finance. The challenges are enhancing infrastructure investment and financial stability, supporting equitable growth, promoting competitiveness and innovation and protecting the environment. The enabling factors are developing infrastructure finance, harnessing human capital, building seamless connectivity, strengthening governance and institutional architecture. He said that infrastructure investment will increase both aggregate supply and demand while decreasing prices. He also talked about the Southern Tagalog Arterial Road (STAR), Philippines, In this study it was shown that the GDP growth rate improved by 2.2 percent in the post railway period.

The inaugural session was followed by various technical sessions and a dinner talk by Dr. P.J. Nayak. A brief background and discussions that took place in these sessions have been elaborated below.

Special Session: Towards a sustainable growth plan: Voices from the Troika

The leaders level G20 was a culmination of the 2008 global economic crisis. In the post-crisis era, when major economies differ in their trends and policies, and global development appears extremely unbalanced, it is increasingly hard to find a target like that of 2008, which can be recognized by the all member nations. This poses the risk of G20 summits becoming ceremonial meetings that continue to take place because of inertia. Alternatively, the absence of any immediate crisis presents an opportunity to the G20 to tackle the major medium and long term issues that challenge sustainable growth[1]. In this session, speakers from the past and current presidencies of the G20 discussed the medium and long term challenges to sustainable growth and how the G20 can act cohesively to deal with these issues to achieve stronger, balanced and sustainable world growth. This session was chaired by Sujata Mehta, Secretary (ER&DPA), Ministry of External Affairs, Government of India and the panelists were H.E. Patrick Suckling, Australian High Commissioner to India and H.E. Burak Akçapar, Ambassador of Republic of Turkey to India.

Both the speakers emphasized on the need for investment in Infrastructure, addressing climate change, creating more jobs, inclusiveness and reforms (Financial reforms, Political reforms, Tax reforms etc). Under the Australian presidency last year, all G20 member countries signed an action plan which if implemented will add 2% to global growth and create more jobs. At Brisbane meeting, countries were asked to prepare National action plans to promote growth, trade liberalization and reforms. The Australian high commissioner said that finance ministries have to come up with the models to address climate change. According to IMF one third of action plan has been implemented till now.

Turkey's presidency focused on investment, implementation and inclusiveness. During this year's meeting in November, the first accountability report of G20 will be presented. It is also proposed that countries should come up with investment strategies such as measures to track long term institutional investors, promoting improved access to finance by the SMEs, improving the regulatory framework, improving the efficiency of public investment, and supporting alternative sources of energy to complement growth strategies. Turkey's ambassador said that USD 8 trillion infrastructure investments are required in Asia over the next decade. He added that countries should promote PPP models, encourage innovation in technologies in the field of energy to solve the energy crisis in Africa and Asia and measures to reduce food wastage which is costing USD 1 trillion annually. He also said that G20 is aiming to reduce gender gap by 25% by 2025 which will bring 100 million women into the workforce.

In the discussion, a question was raised whether there will be a push from the G20 to reach a conclusion in next year Doha round on multilateral trading system. Both the panelists laid the

1 Dervis, K and Drysdale, P 2014, 'Time to embrace strategic leadership', East Asia Forum Quarterly (EAFQ), Vol. 6, no. 2, pp. 2-5.

emphasis on the multilateral trading system and G20's fight against protectionism. Ambassador Burak Akçapar also said that G20 which represents 76% of total world trade should lead by example in these talks.

Session 1: Accelerating infrastructure investments in G20 countries

In today's world when businesses rely on roads and ports to access markets, on power stations for energy to operate, and on telecommunications to engage with their customers and remain competitive, investment in infrastructure is critical for economic growth. The world, however, faces a huge gap in infrastructure investment. The stock of public capital, a proxy for infrastructure, has declined significantly as a share of output over the past three decades across the world[2]. In emerging market and developing economies, gaps in the quantity and quality of infrastructure per capita are glaring. Reduced infrastructure investment is also a major reason for a decline in potential output growth, particularly in the emerging economies.

Due to reduced fiscal flexibility, some governments have put the onus of infrastructure investment on the private sector. However, the importance of public investment in infrastructure cannot be summarily rejected. Increased public infrastructure investment raises output in the short term by boosting demand and in the long term by raising the economy's productive capacity. To address the enormous public infrastructure investment needs, China and BRICS have set up the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB) primarily aimed at financing infrastructure. Considering the importance of infrastructure development, particularly in developing countries, 'Investment' has been one of the three priorities of the current G20 Presidency.

In this light the session on 'Accelerating Infrastructure Investment in G20 countries' discussed the potential benefits of accelerating public infrastructure investments, particularly in terms of boosting potential growth and employment. The session also reflected whether the new multilateral institutions – AIIB and NDB can be a new channel for financing the much- needed infrastructure investments in G20 countries.

The session was chaired by Prof. Shankar Acharya (Honorary Professor, ICRIER) and the esteemed panelists included Ms. Sindhushree Khullar (CEO, NITI Aayog, Government of India), Dr. Rajiv B. Lall (Executive Chairman, IDFC), Dr. Alok Sheel (Member Secretary, State Planning Board, Kerala), Dr. Thomas Richardson (Senior Resident Representative in India, IMF).

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[2] IMF Survey : The Time Is Right for an Infrastructure Push, http://www.imf.org/external/pubs/ft/survey/so/2014/res093014a.htm (accessed June 23, 2015).

Talking about infrastructure development in the context of India, Ms. Khullar spoke about the current government's increased focus on development of infrastructure in the country. She said that the government is dedicated to speedier approval, award and implementation of projects and revival of the stalled projects, and talked about various upcoming projects. Dr. Rajiv Lall reiterated the view of importance of increased public expenditure on infrastructure and the importance the speedier approval and implementation process. He also shared his views how the private sector can become an efficient partner in the development of infrastructure and on private financing of infrastructure.

In his presentation, Dr. Alok sheel spoke about the need to rethink the role of infrastructure as a Counter-cyclical tool alongside automatic stabilizers and that greater role for public investment in infrastructure to crowd in private investment is required. He suggested public expenditure switching from consumption to investment as most of the funding would need to be domestic and using the fiscal space created by lower oil prices for stepping up infrastructure investment. He also suggested that external surpluses and excess liquidity need to be diverted to infrastructure investment and MDBs need to be adequately resourced to enable them to intermediate global savings on a larger scale.

Dr. Richardson's presentation focused on the efficiency of public investment (PI). Public investments generally boost output and hence reduce public debt levels. However, efficiency of public investment which depends on the public finance institutions is important. He said that IMF research shows large gaps in public infrastructure management efficiency (highest efficiency gaps in low income countries, followed by emerging markets and then advanced economies. He said that stronger PI efficiency could even double the impact on growth from a boost in PI. To improve the PI management, the whole process of planning (fiscal rules, national and sectoral planning, centre- state coordination); allocating (budget rules and frequency) and implementation is important and hence need to be strengthened.

During this year's G20 conference members stressed on the importance of accelerating investment in infrastructure and in the communiqué they stated that they are expecting Global Infrastructure Hub to make significant contribution towards these efforts and also GIB is expected to present its report on knowledge sharing to G20 finance ministers and central bank governors by April 2016.

Session 2: Synchronizing global monetary policy: How can G20 help?

Since the global financial crisis, central banks in advanced economies have adopted unconventional monetary policies (UMPs) such as near zero policy rates, large scale purchases of government bonds and private securities, schemes to promote bank lending and guidance over the future path of policy rates to ensure financial stability growth and stimulate. These UMPs

have supported growth in advanced economies, produced large run-ups in asset prices, compressed long-term yields, and led to very large capital flows to emerging markets.

Seven years later, as growth outlook remains mixed across the major advanced economies; monetary policy across economies has also become asynchronous. Central banks in Euro area and Japan continue to pursue the unconventional monetary easing to support the slow growth. Federal Reserve Bank has started moving towards monetary policy normalization on account of slow yet sustained recovery in the US which could result in impaired liquidity in certain markets or asset classes. Asynchronous monetary policies have resulted in rapid appreciation in the dollar and sharply increased volatility in forex markets. This volatility, combined with depreciation in some of emerging markets, may put strains on nonfinancial corporates that have borrowed heavily in foreign currencies. Against this background, in this session panelists discussed the impact of the asynchronous monetary policy and how the G20 dialogue can help in monetary policy co-ordination among countries and potential ramifications on emerging markets.

This session was chaired by Abheek Barua, Chief Economist, HDFC Bank and the panelists were Poonam Gupta, Senior Economist, World Bank, Nobuyuki UDA, Director General of Research and Co-ordination Department, PRI, MoF, Japan and Heribert Dieter, Senior Research Associate, The German Institute for International and Security Affairs, Berlin.

Dr. Gupta discussed about the challenges for developing countries to adjust to the monetary policies of developed economies especially US. There are two cycles to monetary policy, one expansion cycle and the other one is contraction cycle. During the expansion cycle, excess liquidity finds its way into the developing economies and creates asset bubbles etc and during the contraction cycle the money flows out of the developing economies which puts pressure on their economies. The recent US Fed hiking of interest rate by 25 basis points (first interest rate rise in contraction cycle) will have less impact on developing economies than the total 300 basis points rise over the next two years. Indian economy looks to be in a good position to withstand the shocks from the FED's rate rise as it is an importer of oil. As for synchronizing monetary policies among the countries there is no theoretical evidence that synchronizing will benefit the countries. She concluded saying that developing countries should pursue reforms to immune themselves from the developed countries' monetary policies.

Dr. Dieter said that the avenues for excess liquidity which was available because of loose monetary policies are mainly emerging markets and this causes more damage than benefitting both emerging and developed economies. Low level of interest in advanced countries caused false sense of security and many countries in Europe have reduced their willingness to implement reforms for higher productivity and this also caused deindustrialization in some countries. In Italy, the no. of cars produced were less than what it used to produce earlier and currently Italy produces less cars than Slovakia and Argentina. Because of loose monetary policies the debt levels have risen rapidly in the recent past and in case of China the debt level has gone from 150% of GDP to 200% of GDP. The potential end of QE also coincided with the

decline of BRICS except India. Advanced economies have to tighten their monetary policies together over the time otherwise there will be nasty developments in exchange rates etc. Economic theory tells us that synchronization of monetary policies is possible which happened during gold standard and from the developing countries' perspective implementing taxation on capital flows is one of the alternatives to protect themselves from the negative effects of Developed countries' monetary policies.

Dr. Nobuyuki UDA discussed about the monetary policy in G20 meetings, objectives of monetary policy in US, EU and Japan, Experience of monetary policy coordination in G7 countries. In many statements of the G20, few excerpts were, central bank's independence, In October 2008, coordination of monetary policies by countries was mentioned. In June 2012 G20 communiqué, G20 acknowledged the effects of advanced countries' monetary policies on emerging countries. In the recent past, many of the G20 communiqués mentioned the careful and calibrated approach of member countries in setting the monetary policy and also the spillover effects will be kept in mind while setting the policy. The objective of ECB differs from that of US FED's and BoJ's because ECB solely focus on price stability while other two focus on both price stability and growth. US FED while setting its monetary policy will take wide range of things into account including international developments but to what extent it takes them into account is questionable. He concluded that the experience of G7 shows that the coordination can work under certain condition.

During the discussion questions were raised over the use of Taylor rule in setting the monetary policy, feasibility of coordination among the countries. In this year's G20 communiqué, it has been mentioned that central banks will continue to ensure the price stability, and support economic activity, consistent with their mandates.

Session 3: Competitive devaluations: The new global norm?

Earlier this year, episodes of currency devaluations in some Asian economies raised fears of competitive devaluation leading to currency wars. Competitive devaluation is defined as the deliberate reduction in the value of a currency by a country in response to a similar policy by the other country, to gain competitive advantage over the other country. It has long been recognized as a major threat to stability of international monetary systems. In a sluggish global economy, where countries seem to be following the beggar-thy-neighbor policy and global demand remains weak, emerging and developing economies may also decide to join the bandwagon to boost exports through weaker currencies. In the first week of September 2015, the finance ministry has commented that India will raise the issue of currency devaluation and its ramification on the global summit in G20 Summit.

Finance ministers and Central Bank Governors (Ankara, Turkey Sept 2015); and most G20 communiqués have reiterated their commitment to move toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and

avoid persistent exchange rate misalignments. They talk about refraining from competitive devaluations, and resist all forms of protectionism.

Considering the importance of the issue, a session on ‘Competitive devaluations: The new global norm’ was organised in this year’s G20 Conference. The session primarily focused on the dangers of using exchange rate as a long term tool to boost competitiveness particularly for emerging markets like India. Dr. Thomas Richardson (Senior Resident Representative, IMF) chaired the session and Dr. Ashima Goyal (Professor, IGIDR) and Dr. Subir Gokarn (Director of Research, Brookings India) were the panelists of the session. In her presentation, Dr. Goyal talked about how markets do not like the sudden movements even if they are market caused. She suggested that the currency volatility has been misinterpreted as currency war. Analyzing the situation from India’s perspective, Dr. Gokarn said that three factors point to a stable external environment in the months ahead- significant softening in the commodity prices, recovery of United states and portfolio rebalancing (among investors rather than asset category). He suggested that the best protection against global shocks is a healthy domestic macroeconomic situation. A healthy and a relatively stable global situation over the next few months (and hopefully, longer) could provide a significant window of opportunity to clean up the macroeconomic scenario in India.

The G20 countries said in a statement that they are committed to their previous exchange rate commitments and will resist all forms of protectionism[3].

Annual G20 Dinner Address: P.J. Nayak

Speaking on the annual G20 dinner address, Dr. P. J. Nayak criticized government’s approach to banking sector. He said government should decrease its share less than 50 percent. He added the government could continue to be equally dominant in shareholders meetings if it had a 45 per cent stake but banks will not suffer from an unlevel-playing field. “The law needs to be changed for this to happen,” said Nayak. He also talked about the compensation structures in PSBs and private sector banks. There exists a wide disparity in incentive structures that expecting the behaviour of both to be identical when incentivisation system is so varied, is to live in an illusionary world. Speaking about the returns on assets, He pointed to the large differential in the return on assets between PSBs compared to private banks. While PSBs have two-third of the banking system's assets, their profitability is a third of the total. This shows the return on assets of the private sector is four times that of PSBs, said Nayak.

[3] G20 Leaders’ Communiqué Antalya Summit, 15-16 November 2015

Session 4: Addressing the financing challenge of Small and Medium Enterprises (SMEs) and enhancing their participation in Global Value Chains (GVCs)

SMEs' access to finance has worsened since the onset of the crisis, affecting their ability to participate in world markets. As banks have deleveraged to meet new regulatory requirements, SMEs have struggled to obtain sufficient finance through bank lending. Meanwhile, alternative financing instruments still represent only a very small source of SME funding globally and cannot compensate for the slowdown of bank lending in many economies. Access to finance has been one of the major barriers preventing SMEs from integrating into Global Value Chains (GVCs).

For trade to be inclusive GVCs should provide opportunities not only to big multinational corporations but also to the Small and Medium Enterprises (SMEs). The ability of SMEs to participate in GVCs can yield substantial benefits, including spillovers of production technology and managerial know-how. However, there are several challenges that the SMEs need to overcome before they can avail of these opportunities.

The session was chaired by Anwarul Hoda, Chair Professor, ICRIER. The panelists were Prema Chandra Athukorala, Professor of Economics, Crawford School of Public Policy, Australia National University, Dr. Naoyuki Yoshino, Dean, Asian Development Bank Institute and Mr. Anil Bharadwaj, Secretary General of Federation of Indian Micro and Small & Medium Enterprises. Professor Hoda underlined the importance and objectives for enhancing SMEs participation in GVCs and the challenges before SMEs that need to be addressed. Mr. Yoshino shared the experiences of credit lending to SMEs in Japan. Mr. Bharadwaj spoke about how GVCs are transforming the traditional trade and industrial policies, opportunities for India, and challenges for SMEs in financing including access and cost of finance in context of GVCs.

The discussion and questions revolved around experiences of different countries and learning for India; reform requirements in the financial sector for SME financing like removing information asymmetries and streamlining credit guarantee system. Professor Athukorala mentioned that using per unit value added base as a policy criterion to measure value addition to a country in global production sharing is a misleading indicator. Instead market potential and employment generation are better indicators in policy making. Further, India's high service-linked costs are the major reason given for its low participation in global producer driven value chains.

In this year's G20 leaders' conference, they said financing for the SMEs should be increased and SMEs should take full advantage of Global Value Chains (GVCs) as inclusive GVCs are important drivers of the world trade.

Session 5: Post- Crisis International Financial Regulation: Where have we reached?

With increasing financial globalization, the risk of contagion has gone up. Emerging market economies are becoming more vulnerable to spillover risks emanating from advanced economies. After the global financial crisis, consensus emerged on a better regulatory structure to deal with the risk stemming from the financial institutions. To combat systemic risk a number of regulatory reforms like Basel III, OTC derivatives market, changes affecting the regulatory and accounting framework for institutional investors, policy measures for globally systemically important financial institutions (G-SIFIs) are being implemented. G20 has played an important role in pushing the improvement in financial regulatory structure. Several important legislations have been enacted; economies have made progress in implementation of the Basell-III norms. However, the consistency in implementation remains a major challenge. In this session panelists discussed whether the reform in regulatory structure has strengthened the banking sector's ability to absorb potential shocks arising from financial and economic stress.

This session was chaired by Dr. Jaimini Bhagwati and the panelists include Kalpana Kochhar, Deputy Director, Asia and Pacific Department, IMF, Ila Patnaik, Principal Economic Adviser, Department of Economic Affairs, Ministry of Finance, Government of India, K. P. Krishnan, Additional Secretary, Land Resources, Ministry of Rural Development, Government of India and Amarjeet Singh, Chief General Manager, SEBI.

Kalpana Kochhar talked about whether the financial system is ready to support the growth strategy. She discussed financing needs and sources of financing in India, India’s financial system’s ability to meet these challenges and the planned reforms in order to achieve these goals. Infrastructure gaps are massive in Asia. According to a study by UN and ADB, funding requirement in Asia is about $1 trillion a year. The Demographic changes and the urbanization in Asian countries will pose a massive challenge to governments as they need to increase their social spending and social assistance also needs to be stepped up. Bulk of the sources of funding are in private sector and the other sources are remittances, Foreign Direct Investment (FDI) inflows and the capital markets. In India, bank credit is mostly directed to corporate and there are concerns about asset quality and profitability. The corporate leverage has risen more than its Asian counterparts. It shows, investment outlook remains challenging and public infrastructure investment to enhance productivity will crowd in private investment. PSBs also need capital injections of around ¼ percent of GDP to sustain credit growth of 15% per year. It has been clear that PSBS are safe but they “underlend” to the private sector and overinvest in government securities. She concluded by saying that banks finance needs to be enhanced.

Dr. Ila Patnaik said that the lessons learned from crisis in regulating the financial firms are consumer protection, micro prudential regulation, systemic risk and resolution. In advanced economies such as US and UK, they established new regulatory bodies and councils to cooperate among the regulators and to get a perspective on the whole financial system. In US, Consumer Financial Protection Bureau (CFPB) and Financial Stability Oversight Council (FSOC) and In

UK, Financial Conduct Authority (FCA) and Financial Policy Committee (FPC) were established. Also from the crisis it was learnt that the centralized databases were not available for regulators which limited regulators capacity to understand the risks in the system. In US, Office of Financial Research was established which collects data on entire financial industry and assists FSOC in examining systemic risks to the economy. The Resolution Framework which was nonexistent before the crisis was put in place to limit the repercussions emanated by the insolvency of a major financial firm. She concluded saying that regulation should find a balance as over regulation in countries like India will kill the financial system before it was even developed and the regulatory data needs to be digitized in India.

K.P. Krishnan discussed about the lessons learned from the crisis and the challenges that remain to make the system safer and more resilient. According to him the basic lessons learned from the crisis are Standard consumer protection and financial sector is central to modern economy akin to the brain in the body. There was a prevailing opinion post 2008 crisis that the regulators failed to regulate financial firms and consensus emerged that regulation of banks should be tightened. After the crisis it is evident that banks needed more capital and banks need to keep much larger assets in liquid form because during the crisis banks faced severe capital adequacy and liquidity problems. Before the crisis the capital ratio for banks under Basel II norms was around 4% and after the crisis it has been increased to 8-12% and for Systemically Important Financial Institutions (SIFIs) additional 2.5%. There were also the liquidity ratios such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to limit banks' reliance on wholesale funding which is generally nonexistent during crisis times. In case of India, to summarize India's experience in crisis is "complicated interplay between Non Bank Financial Companies (NBFCs), real estate companies, mutual funds, Indian MNCs and currency markets". It also clearly defied the sectoral expertise and the perspective of whole system was needed to understand the system.

Amarjeet Singh gave securities market perspective on where we have reached in post crisis financial regulation. After the crisis securities market regulators were pushed to the management of systemic risk, review of perimeter of regulation regularly, adequate oversight of CRAs and Auditors, Hedge funds and Research analysts, Strengthening the regulation of derivative markets and financial infrastructure and regulation of Money Market Funds (MMFs). In India, to contain and monitor the systemic risk Financial Stability and Development Council (FSDC) was created in 2010, IRTG in 2011 and EWG in 2012. Regulatory framework also widened, OTC derivatives on securities not allowed and FMI reforms are also on track. SEBI also has taken organizational initiatives such as constitution of international advisory board, new advisory committees (AIFs, corporate bonds, QARC etc.) and Annual brainstorming events etc. Post crisis the focus is on enhanced enforcement, implementation monitoring and cross borer concerns. The no. of cases taken up by SEBI and penalties imposed by SEBI are also on the rise. He concluded by saying that managing global challenges, market turmoil and volatility etc will pose a challenge to regulators.

During the discussion participants raised questions on financial deepening in India, light touch regulation, Regulatory divergence between countries, implications of China slowdown on funding requirements in Asia and the long term effects of political interference in regulatory bodies such as FSDC.

During this year's G20 conference, G20 countries agreed to implement the recommendations put in by the Financial Stability Board in areas like OTC derivatives and establishing centralized databases etc.

Session 6: Scaling up Private Investments in Clean Energy Infrastructure

The representatives from United Nations Framework for Climate Change (UNFCC) member nations met in Paris to reach a new universal agreement on climate change. In this 21st Conference of Parties (COP 21), the member nations revealed their Intended Nationally Determined Contributions (INDCs) in emission reduction. As countries put in place the policies and structures needed to catalyze the de-carbonisation of the global economy, shifting investments to low-carbon, climate-resilient energy infrastructure and scaling-up becomes integral to support energy security and climate agendas. Clean energy investment creates opportunities for countries by leapfrogging older technologies to avoid being locked into carbon-intensive development pathways, reducing fossil-fuel reliance for energy-importing countries, fosters innovation, among other benefits. Considering the massive scale of investments required in clean energy and the current strain on public finances, achieving the transition to clean energy will entail leveraging private financing both at domestic and international level. However, investment barriers, such as higher upfront costs, higher perceived risk and longer investment timelines compared to fossil-fuel based alternatives constrain the private investment in clean energy infrastructure.

This session was chaired by Rajat Kathuria, Director and Chief Executive, ICRIER and the panelists were Ajay Mathur, Director General, TERI, Amar Bhattacharya, Senior Fellow, Global Economy and Development Programme, Brookings Institution and Pierre Jacquet, President, Global Development Network.

Amar Bhattacharya said Infrastructure is an integral part of the modern economy. Developed countries took approximately 100 – 250 years to reach current stages of infrastructure, but China has achieved the same in 25 years. Developing countries have the same aspiration, but not the same speed, they will develop much faster. The services demand has increased significantly, and developing countries need large amounts of infrastructure financing. The change in USA is striking. To remain in the 2deg centigrade limit, countries have to change their growth agenda and follow sustainable growth paths and have to scale up infrastructure and clean energy because the current energy patterns are quite unsustainable. There are many impediments to investments. One is distortion pricing, large amount of energy subsidies distort the balance. Conventional energy negatively affects basic human health and poverty. Second, there is no carbon price in

India –we need carbon pricing to balance to clean energy. Third, availability of finance is an issue because we need affordable finance to consider renewable energy and alternative energy sources otherwise we will choose dirty coal. There is also a lack of cooperation in technology.

When talking about clean energy we should look at the total package of energy sources, and not just renewable sources. Unfortunately, sustainability does not feature in G20. Multilateral banks also have a role to play in this – they can provide cheaper financing required for clean energy that is high risk. Emerging markets want low interest rates. If the total financing requirement is US$ 3 trillion, the multilateral banks provide only US$ 30 to 40 billion. There is a large gap to be filled. Commercial banks have higher interest rates for their loans and are not the most attractive means of financing hence G20 should play a leadership role in this area.

Pierre Jacquet discussed about the challenges investment in clean energy infra. One of the challenges of clean energy investment is engaging private sector as there are many risks investing in clean energy sector and there are no risk sharing mechanisms. He said the financing of clean energy investment is not an issue as there are USD 22 trillion of total world savings and we need to channelize these into investment in infrastructure. We have to hope for the pushing of technology frontier i.e. technology innovations which are environment friendly and more efficient. He also added that government has to act as a catalyst for private sector through public financing.

Ajay Mathur talked about the three areas in India in which clean energy investment was successful even though large scale private investment is not happening in this sector. Following are the three areas: Indian wind story, super critical technologies (coal) and LED lighting. India developed their wind capacity solely through private financing. It was 100% private investment and there were no carbon tax and major subsidies. Supercritical – price of electricity from non super critical was cheaper when this technology rolled out but 100% of the new coal plants set up in the last 3 years are supercritical and price of electricity is now 25% cheaper using this technology. LED company Energy Efficiency Services Ltd was set up by current government and the investment is all from 4 navratna companies. The cost of LED bulbs was brought down by procuring these bulbs in bulk. The financing risk for consumer is managed by the company. Of course, recognition of a particular initiative and political backing helps to bring about a successful product. We need to also make sure that there is low risk and low interest rates financing. We should take these initiatives for energy access primarily and the co-benefit should be climate change mitigation.

Session 7: ***Implementation challenges in Base Erosion and Profit Shifting (BEPS) Action Plan***

Base Erosion and Profit Shifting (BEPS) has become a core issue in international tax policy. BEPS refers to tax planning strategies resulting in little or no overall corporate tax being paid, due to the use of gaps and mismatches in tax rules. At the request of G20 Finance Ministers, in

July 2013, the Organization for Economic Co-operation and Development (OECD) launched an Action Plan on BEPS to fight tax evasion and aggressive tax planning. The 2014 deliverables saw consensus on seven out of the fifteen action plans. The challenge now is to resolve the technical issues that remain and see how it can be transformed from paper to practice, in tune with the 2015 deliverables.

In the session on 'Implementation Challenges in Base Erosion and Profit Shifting, chaired by Mr. Rajiva Ranjan Singh, Mr. Raffaele Russo, Mr. Akhilesh Ranjan and Mr. Jayesh Sanghvi discuss the various stages and facets of the OECD BEPS Project and their perspectives. Mr. Raffaele Russo, who is heading the BEPS Project at the Centre for Tax Policy and Administration, OECD, was the first to present his views. He spoke of why the BEPS project was needed and said that in an interconnected world, rules which were framed in the beginning of the previous century were being used and there was a pressing need to update these rules for taxation of multinational companies. He also pointed out that while moving towards a system of avoiding double taxation, we cannot allow absence of taxation or a situation of stateless income. Giving the audience an overview of the OECD BEPS Project, he said that the project was launched in July 2013 and first set of outputs were delivered in September 2014. The final package is slated to be delivered by October 2015 to the G20 Finance Ministers meeting in Lima, which is likely to include the following – data and economic analyses, reinforced international standards on tax treaties and transfer pricing; criteria and their application to ensure fair tax competition; recommendation, best practices, common approaches to bridge gaps among domestic laws; measures to provide more predictability; analytical reports on complex issues. Mr. Russo spoke of the realignment of taxation with economic activities and value creation and also expressed the hope that this exercise will have outcomes that are global in nature, reaching out to countries other than those of the OECD and G20.

Mr. Akhilesh Ranjan, an Indian tax official, discussed how it was extremely impressive that the BEPS Project has attempted to address a wide range of topics in two years time. He went on to say that this G20 sponsored project is dealing with a very important area where work was required to be done and of particular importance is to note the manner in which developing countries have also been engaged in this. He also stated that transparency is a very important outcome that is expected from the implementation of this project.

Mr. Jayesh Sanghvi, International Tax leader, Ernst and Young, provided an industry perspective and said it will be interesting to see the manner in which Action Point 14 (Dispute Resolution) is going to be dealt with. He pointed out that whether the government would lose all autonomy loomed large and that it will be required to have monitoring systems, enablers and capacity building bodies in place.

In the discussion, participants from the audience raised questions on how BEPS can resolve issues such as applicability of MAT on FIIs and the absence of harmonisation of tax rates. The Panelists confirmed that the applicability of MAT to FIIs is not directly related to the concept

and was a domestic tax issue which was fueled by a particular advance ruling. They also credited the absence of harmonisation of tax rates to the lack of political consensus and the simultaneous need to harmonize the tax base as well.

In this year's G20 leaders' communiqué, they endorsed the package of reforms recommended by the G20/OECD Base Erosion and Profit Shifting (BEPS) project. G20 requested all the countries to implement these recommendations including the developing ones and G20 requested OECD to come up with a framework to review the implementation of BEPS by early 2016.

Session 8: ADBI Special Session: Urbanization, Income Inequality and Health Inequity

Today, half of Asia's population is living in urban areas; a rate substantially lower than in all other parts of the world, except for Africa. In coming years, urbanization is expected to continue throughout the region and will be one of the main drivers of socio-economic transformation. Employment will be shifting from agriculture in rural area to jobs in manufacturing and services in urban areas. Urbanization will also have consequences on income and wealth distribution as well as on other socio-economic areas, such as health or gender. However, the exact impact and transmission mechanisms are still not well understood.

'Inclusiveness' was one of the focus areas of the current G20 presidency. This year's G20 key message mentioned: "We see rising inequalities as a major problem among and within the countries. In order to address inequalities, we placed "inclusive growth" at the heart of our agenda. We believe reducing inequalities will contribute to social cohesion and inclusive growth." In this context a special session on Urbanization, Income Inequality and Health Inequity was organised at this year's G20 Conference held by ICRIER. The session was chaired by Dr. Ali Mehdi (Senior Consultant, ICRIER) and the panelists were Dr. Guanghua Wan (Director of Research, ADBI) and Dr. Matthias Helble (Research Fellow, ADBI).

Dr. Wan presented his latest research on the topic of urbanization and income inequality for the case of China. The process of urbanization has the potential exacerbate income national inequality, especially between urban and rural areas, as urban areas typically achieve higher economic growth rates compared to rural areas. Furthermore, urbanization typically drives up property prices within cities, but on the other hand, rapid economic growth might offer better jobs with higher wages for previously poor segments of the population and thereby mitigating income inequality. His presentation showed how China has witnessed rising inequality in the recent years (more than India), both within and between countries. In fact, between 1996-2008 intra-nation inequalities grew faster than international inequality in China. Dr. Wan's research shows that upto 1995, while inequality grew with the increase in urbanization, after which the trends started reversing. His research showed how speeding up urbanization is crucial for higher growth and better distribution. However, the challenges with urbanization such as rising urban inequality, urban crime, and expansion of slums need to be controlled.

Dr. Helble presented his research on 'Urbanization and Health Inequity: The case of Indonesia' in the session. In his presentation, Dr. Helble talked about how urbanization can help to facilitate access to health care services and pharmaceuticals and that badly planned urbanization leads to informal settlements with insufficient housing, poor sanitation and crowding and results in spread of infectious diseases (especially waterborne diseases), increase in mental disorders and violence-related disabilities etc. Through his case study on Indonesia, Dr. Wan showed that urban areas and rural areas in Indonesia have a similar income inequality, but wealth inequality (wealth is more unevenly distributed in cities).