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G7 should step aside for more representative body
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This week marks an historic landmark in the development of the international financial architecture. For the first time, China has been invited to take part in a meeting of the G-7 finance ministers and central bankers, a group that has in the past been described as the 'informal steering committee' of the global economy. Finance Minister Jin Renqing and People's Bank of China governor Zhou Xiaochuan will meet their G-7 opposite numbers in Washington on 1st October in the curtain raiser to the IMF's and World Bank's annual meeting.

China's participation in the G-7 marks the first extension of membership on economic grounds since the grouping was established in 1978, with Russia's inclusion in the G8 meetings of heads of state in the1990s a political gesture that did not extend to the finance ministers' get-together. The G-7 invitation to Beijing represents an overdue recognition of the rise of China and the changing balance of economic power and influence in the international economy.

Over the past two decades the collective membership of the G-7 has seen its share in world output, population, trade, and savings decline. At the same time, the international economic weight of Asia has continued to rise, led by China and the other emerging economies of East Asia, and more recently India. As a result, both the G-7's ability to influence the direction of the international economy through the co-ordinated actions of its current membership, and its global legitimacy, are being eroded.

This trend became painfully apparent in February this year, when G-7 finance ministers met in Florida to discuss options for dealing with global macroeconomic imbalances and the future path of a weakening US dollar. It was clear both to observers and to participants that any effective measures to deal with these issues would involve policy decisions by China and some of the other major regional economies like South Korea. Yet these reserves-heavy economies - between them, the central banks of the major economies of Asia now hold over 2 trillion dollars in foreign exchange reserves - had no seat at the "global" table.

Asian economies' monetary and exchange rate policies and the allocation of their gargantuan reserves - heavily weighted towards the greenback - are now a central pillar of the global financial architecture, as the future of the US dollar has become increasingly bound up with the policy decisions of regional central banks.

Intriguingly, Chinese membership of an expanded G-7 could change the character of the institution. Asia's approach to economic policy is quite different to that of Europe and the United States, whose policy prescriptions have dominated prior G-7 meetings, often to the chagrin of Japan. Manifest in its massive foreign exchange reserves, Asian central banks have a more interventionist, control-oriented approach to monetary and exchange rate policy closer wed to trade concerns. With China's entry, the existing Western bias may be weakened and a different, less orthodox focus may emerge.

The approach to China also comes at a time when the G-7's role lead manager of the world economy is being challenged by the emergence of potentially competing regional centres of economic policymaking. In particular, the growing economic importance of Asia is generating its own process of institutional change and development. Since the Asian financial crisis crystallised regional frustrations with "international" advice, East Asian policymakers have accelerated their own cooperative institutions. ASEAN+3 has organised the 30 billion dollar plus Chiang Mai Initiative of bilateral swap agreements. The Reserve Bank of Australia is a key player with its peers in New Zealand and East Asia in the Asian bond fund initiative and its goal of deepening

regional bond markets. While the G-7 has been losing steam, regional initiatives, with and without Australia, have been picking up pace.

These developments at the both the global and the regional level have important implications for Australia. While Australia can welcome the inclusion of China in the G-7 as a move to give our region greater weight in global economic affairs, an expanded G-7 will do nothing to strengthen Canberra's voice at a global level. Indeed, by potentially diluting the importance of the APEC leaders meeting, it could serve to weaken it. An attractive policy initiative for Australia therefore would be to add its voice to the call for the G-7 to be replaced by its 1999 progeny, the G-20, which includes Australia. Adding China to the G-7 is a post facto, piecemeal reform, and one that in the future is likely to have to be supplemented anyway, as economic power becomes further geographically dispersed: India for example would be a future candidate. In contrast, a shift to the G-20 would be forward looking. The G-20 was the brainchild of a G-7 rightly worried about its future ability to represent the global economy. The G-20 which includes the major economies of all regions of the world is much better placed to steer the global economy than the increasingly challenged and open-ended G-7. Australia should make that case.

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