

Malcolm Cook and Mark Thirlwell

Time to push the G20 vision

Australian Financial Review

19 April 2005

P. 63

The Group of Seven industrialised nations' meeting last weekend ended with yet another communique calling for action on global economic imbalances. International financial markets barely reacted to the same old language, and the meeting in Washington seems to have done little except signal the declining relevance of this rich countries' club.

A big part of the problem with the G7 is that central to the debate about the current global monetary order is the growing economic and monetary weight of Asia in general and China in particular. US policymakers, for example, are once again demanding an upward revaluation of the yuan, which would, they hope, spearhead an adjustment to global imbalances.

Yet China, after attending its first G7 meeting last year, politely declined to attend this time around, mindful no doubt that it would face criticism over its exchange rate policy.

Even so, the need for economic consultation between Beijing and Washington is pressing. An increasingly Sino-centric Asia and the United States are now locked in what former US Treasury secretary Larry Summers has called a "balance of financial terror".

The US is increasingly reliant on Asia to fund large external deficits, which in turn leaves Asia increasingly exposed to any adverse dollar movements. One result of this co-dependent relationship has been that the central banks of China, Japan, Taiwan, South Korea and India are the world's largest buyers of US treasuries and the largest holders of foreign exchange reserves.

This leaves Asia as a key player in determining the value of the dollar and hence the stability of global monetary conditions. This growing influence was visible in February, when comments by the Bank of Korea on asset diversification sent the US dollar tumbling, and then again in early March, when Japanese Prime Minister Junichiro Koizumi, in a rare comment on monetary policy, appeared to indicate that Tokyo wanted to diversify its overseas assets, triggering more downward pressure on the dollar.

China's absence leaves the G7 looking like a relic of an Atlanticist old order that is gradually passing into history with the growing economic ascendancy of Asia, and the time has come to look for alternative mechanisms for governing the world economy that recognise a greater role for Beijing and other regional economic powers.

A good place to start is the G20. As well as encompassing the Atlantic membership of the G7, it includes the four Asian giants — Japan, China, India, and South Korea — which between them hold almost \$US2 trillion (\$2.6 trillion) in foreign exchange reserves, so it is well positioned to deal with the issue at the heart of the international policy debate. Meetings of the G20 in China in 2005 and Australia in 2006 may be the global launch pad the organisation needs.

The G20's broad membership — it also includes Australia, Argentina, Brazil, Indonesia, Turkey and Saudi Arabia — means that in future it could speak more authoritatively on a whole range of issues facing the global economy, from dealing with international financial crises to the link between world crude oil prices and monetary policy.

In this light, the G20 summit to be held in Australia next year may turn out to be a very big deal indeed. Potentially, it could place the Australian Treasurer at the centre of a new wave of global monetary co-operation anchored in Asia's growing global influence.

Moreover, as well as providing Canberra with the opportunity to secure a place at the heart of the international economic architecture, promoting the G20 would also meet another key policy objective.

Dealing with China and its growing impact is not just a central issue for the international financial architecture. It is also a major component of Australian foreign policy. Prime Minister John Howard's state visit to China and his attendance at the Boao Forum for Asia on Hainan island two days later confirms the importance that Australia attaches to China and the potential that China's new, assertive regional leadership offers for Australia to secure new pathways to Asia and beyond.

In the 1980s, Australia and Japan developed Asia-Pacific Economic Co-operation to address Asia's new importance and global economics tensions. Now Australia and China should build up the G20 for the same reasons. Australia's good relations and shared interests with Asia's leaders serve us well globally.

Malcolm Cook is Asia-Pacific program director, and Mark Thirlwell international economy program director, at the Lowy Institute for International Policy.