

Huge challenges and opportunities too crucial to miss

Stephen Grenville

The Age

1 November 2006

P. 19

The G20 meeting in Melbourne this month will be the highest-level international economic gathering ever to take place in this country. It brings together the treasury ministers and central bank chiefs from the 20 or so top countries, representing 85 per cent of world GDP.

It is an opportunity for Australia to demonstrate the role of medium-sized countries in adapting the international institutions to an increasingly globalised world. Will we seize this opportunity, or just show the visitors a good time?

The G20 was a direct response to the Asian crisis in 1997-8, when the inadequate international institutional framework was made painfully apparent. The rapidly growing countries of East Asia had become increasingly open to globalised financial markets, making them vulnerable to the volatile ebb and flow of foreign capital. These countries lacked the deep markets, strong institutions, flexible exchange rates and policy-making experience to cope.

The International Monetary Fund, supposedly their backstop, misdiagnosed the problems and applied inappropriate prescriptions. The costs of the crisis have been enormous - especially to our nearest neighbour, Indonesia. The universal view, at that time, was that the "international architecture" - the institutions and the rules that govern international economic relationships - needed a substantial overhaul. G20 would be well-placed to do this, being more representative than the "big-country" club, the G7, and more responsive and flexible than the IMF.

Has this task been achieved, and is the work of the G20 already finished? Hardly. Granted, there is a much greater awareness of the dangers of volatile capital flows. The IMF staff has revised its thinking on these issues, and has implemented useful policy guidelines and improved data standards. But its governance weaknesses have hardly been touched. After strenuous efforts to reform the anachronistic voting shares, the fund's annual meeting in Singapore in September produced a minor tweaking of voting shares, leaving the Europeans with nearly a third of the voices around the board table.

Important international issues, such as the imbalances in payments, are still largely left out of serious discussion in IMF meetings, with the action (or inaction) still remaining with the G7. The IMF is suffering from "mission creep", being asked to carry out detailed annual surveillance of all member countries, act as lender-of-last-resort, provide technical assistance, restructure international debts and alleviate world poverty. Our region remains under-represented and, perhaps as a consequence, largely uninterested in the unfinished task of developing the rules that will govern an increasingly integrated world - what Thomas Friedman described in *The Lexus and the Olive Tree* as the "Golden Straitjacket".

Will these issues be addressed in Melbourne? Judging from the agenda, the action has moved away from reforming the international architecture, with the job half-done. True, the narrow governance issues of the fund - voting rights - remain on the agenda, but reform is pathetically slow and there seems little prospect of Europe conceding that it should be represented by just one voice, not seven. The discussion of energy and resources may add to the already busy debate on these topics, but demographics - another agenda item - is largely a national rather than international issue.

A central problem for G20, as the "new kid on the block", is to stake out some worthwhile territory for itself. It is the right grouping (not too big to be unwieldy, not too small to be unrepresentative), but it has not yet found the right job. The old international institutions have tenacious capacity to preserve their turf while reinventing themselves in wider roles. This has not been challenged. Australia's Treasurer (speaking in the context of last year's G20 meeting in Beijing) said: "It is not the object of the G20 to replicate the work of the international financial institutions."

But if avoiding overlap and duplication leaves the existing architecture in its unsatisfactory state, then a more vigorous approach is needed. G20 should take over roles done elsewhere and do them better. One example would be the serious discussion of international policy co-ordination, which has so far been done ad hoc by G7, leaving the rest of us outside the club. There is, too, a lost opportunity to develop a firmer coalition with our Asian G20 neighbours.

None of this is easy - institutions do not cede power and responsibility easily; consensus is always difficult; Australia's Asian neighbours have shown little interest in playing a larger role; and Australia has to recognise its modest international weight. But if G20 is to live up to its potential, it needs a bolder agenda.

Stephen Grenville is a visiting fellow at the Lowy Institute for International Policy and former deputy governor of the Reserve Bank of Australia.