Australia's G-20 host year: a Treasury perspective

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Australia has been a member of the Group of Twenty Finance Ministers and Central Bank Governors (G-20) since its inception in 1999. In 2006, Australia hosted this prestigious forum, culminating in a meeting of the world's most influential economic leaders in Melbourne in November.

This paper sets out Treasury's perspective on Australia's experience in hosting the G-20, particularly in terms of developing a practical and substantive agenda, strengthening the place of the G-20 in the international architecture, and providing opportunities to reinforce Australia's favourable international economic reputation.

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Introduction

The G-20 is a forum that promotes open and constructive discussion between developed and developing countries on key issues related to global economic stability. Finance Ministers[2] and Central Bank Governors of the G-20 met in Melbourne on 18-19 November last year to address the world's key economic and financial challenges. These challenges included keeping global inflation in check, modernising the governance and policies of the IMF and World Bank, achieving global security in energy and key resource minerals, strengthening capital markets and facilitating the movement of people to meet the challenges of demographic change, and sharing practical ideas and experience in securing domestic economic reform and advancing international trade reform. This meeting was supplemented by many dozens of bilateral meetings between the various ministers, governors, heads of the IMF and World Bank, and key interested parties such as business and non-government organisations. The Melbourne G-20 meeting of Finance Ministers and Governors was the most important international economic policy meeting that has been held in Australia.

Preparation for the Melbourne meeting was substantial.

G-20 Ministers and Governors agreed at their meeting in Berlin in November 2004 that Australia would host the forum in 2006. For the purpose of determining the chair of the forum, G-20 countries are split into five groups, with the chair rotating between groups.[3] Australia's group was slated to host in 2006 and, under the G-20's informal practice, the 2004 host, Germany, approached the group about possible chairs. The group informally nominated Australia, and this was discussed by senior officials at the G-20 deputies meeting in Frankfurt in October 2004 and agreed by Ministers and Governors at the G-20 meeting in Berlin.

Preparations for the 2006 meeting began as soon as Australia was selected as chair in November 2004. A secretariat for G-20 and APEC (which Australia chairs in 2007) was set up in November 2004 in the Treasury, and the long process of budget and financial preparation, staff recruitment and development, preparation of analysis and policy advice, and logistics preparation and implementation began. A G-20 Secretariat was

2 In international fora, Finance Ministers are the equivalent of the Treasurer in Australia.

3 Group 1 consists of Australia, Canada, Saudi Arabia and the United States and provided the chair in 2001 (Canada) and 2006 (Australia); Group 2 consists of India, Russia, South Africa and Turkey and provided the chair in 2002 (India) and 2007 (South Africa); Group 3 consists of Argentina, Brazil and Mexico and provided the chair in 2003 (Mexico) and will do so in 2008 (Brazil); Group 4 consists of France, Germany, Italy and the United Kingdom and provided the chair in 2004 (Germany) and will do so in 2009; and Group 5 consists of China, Indonesia, Japan and Korea and provided the chair in 2005 (China) and will do so in 2010.

also set up in the Reserve Bank of Australia (RBA), which worked closely with Treasury's G-20 and APEC Secretariat and Australia's two G-20 deputies.[4]

Having the Australian Treasurer chair the G-20 in 2006 was a once-in-a-generation opportunity to lead a key global forum. This article sets out how Treasury approached its responsibilities in supporting the Treasurer who, along with the RBA Governor, led the G-20 in 2006 and chaired the Melbourne meeting. It includes some reflections on the role of the G-20 forum.

Australia's approach to chairing the G-20 was founded at the outset in its strategic objectives for the forum. Australia had three major strategic objectives for the G-20 meeting. The first was to ensure that key issues in the global economy were brought to the table and addressed in a substantive and practical way to support global development and stability. The second was to strengthen the position of the G-20 as a pre-eminent forum in the global economic and financial policy architecture, with a strong focus on encouraging rules-based and market-focussed national policies and international cooperation among members. The third was to use the forum to enhance Australia's international reputation and bring the best global policy analysis into domestic decision-making. Policy and logistical planning were jointly directed to meet these strategic objectives.

In this article, we outline Treasury's approach to support the Treasurer in achieving these strategic objectives for the G-20.[5]

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4 Australia's G-20 deputies during Australia's 2006 host year were Dr Martin Parkinson, Executive Director, Macroeconomic Group, Treasury and, until his appointment as Governor of the Reserve Bank of Australia in September 2006, Mr Glenn Stevens as the Bank's then Deputy Governor. Dr Malcolm Edey, Assistant Governor (Economic), fulfilled the role of Australia's central bank deputy following Mr Stevens' appointment as Governor.

5 Treasury is undertaking a similar process in preparing for the APEC Finance Ministers meeting which the Treasurer will host in 2007.

G-20 policy outcomes

The G-20 meeting was held under the theme 'building and sustaining prosperity'. The Treasurer chose this theme because it encapsulated his view that the G-20 should address the key issues at play in the world economy in a practical, substantive and sustainable manner.[6]

At their meetings, the practice has been for G-20 Ministers and Governors to focus on a relatively small number of issues to ensure they can address them in sufficient depth. An agenda with three to five major themes is a full one. Policy preparation throughout 2005 focussed on selecting themes for the 2006 host year.

The major legacy issues from China's 2005 host year were reform of the Bretton Woods Institutions (BWIs) — the IMF and World Bank — and the challenges of demographic change, especially in relation to how capital markets and the movement of people can best facilitate adjustment to rapid population growth in many developing countries and ageing in both developing and industrialised economies alike. The ongoing focus on demographic issues in the G-20 was due to an intervention by the Treasurer at the 2003 meeting on the need for a clear understanding of the various impacts of demographic change and how countries can ensure that the benefits are captured and costs minimised. BWI reform and demographic change were priority areas for

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6 The Treasurer spoke or wrote publicly on the G-20 on many occasions during 2006. He discussed the G-20 in the following speeches: Address to Asialink lunch, http://www.treasurer.gov.au/tsr/content/speeches/2006/023.asp; Address to the Australian and South African Business Lunch, Johannesburg, South Africa, http://www.treasurer.gov.au/tsr/content/speeches/2006/018.asp; and address to the Australian Chamber of Commerce and Industry Annual Dinner, 1 November 2006 http://www.treasurer.gov.au/tsr/content/speeches/2006/024.asp. The Treasurer also contributed the following newspaper articles: 'The G-20: An Australian Perspective', *China Daily*, 16 October 2005; 'The Global Monetary Fund needs to Reform its Quotas', *The Financial Times*, 20 August 2006; 'Opportunity for World Leaders to Sample Melbourne', *The Age*, 4 September 2006; 'G20 Provides Opportunities to Assist Poorest Countries', *The Age*, 27 October 2006; 'A Golden Opportunity to Shine on the International Stage', *Sydney Morning Herald*, 13 November 2006; 'G20 Keys Unlock Economic Growth', *The Australian*, 14 November 2006; 'Trade Key to Ending World Poverty', *The Age,* 16 November 2006; and 'Brave New World', *The Herald Sun*, 16 November 2006. Australia's G-20 finance deputy in 2006, Dr Martin Parkinson, also made some public comments on the G-20, including 'The Role of the G-20 in the Global Financial Architecture', Address to the Lowy Institute for Economic Policy and Monash University Faculty of Business and Economics http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1171, and 'The G-20 — Addressing Global Challenges', Address to the Australian Business Economists Luncheon, http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1185. Dr Parkinson also contributed the following newspaper article: 'Growth is the Best Weapon against Poverty', *The Age,* 13 November 2006. This article draws extensively on these various speeches and newspaper articles.

Australia and, from discussions with other G-20 members in 2005, it was clear that there was a broad-based desire for these two issues to stay on the table in 2006.

Two other issues were identified as being relevant for Ministers and Governors to examine. The first was energy and minerals security. With rising and volatile energy and minerals prices, uncertainty in markets, and increasing concern about the reliability of supply and demand, this was (and remains) a key international issue. It was also one that was well-suited to the G-20, given the mix of major energy and minerals producers like Australia, Brazil, Canada, Indonesia and Saudi Arabia, and key consumers like China, Europe, India, Japan, Korea, and the United States. It is a topic of direct interest to the G-20 because developments in these markets can materially affect macroeconomic stability and growth, and have a range of important implications for fiscal and monetary policy. More generally, finance ministers have a general interest in, and responsibility for, ensuring that their countries' economies function well.

The second issue was maintaining the focus on, and momentum for, domestic economic reform within G-20 countries. One of the G-20's landmark achievements was the endorsement of a *G-20 Accord for Sustained Growth*, agreed in 2004 under Germany's leadership.[7] The G-20 Accord sets out the commitment of members to effective macroeconomic frameworks, competitive markets, and strong domestic institutions. The Treasurer was interested in discussing practical ways to implement the reforms embodied in the Accord with his colleagues. Building a political and social consensus on the need for, and content of, reform can be a key impediment to implementation. A discussion on the political economy of reform was seen to be well-suited to the characteristics of the G-20 meeting, with its open and informal style and the privacy afforded by a tight restriction on the number of people in the meeting room.[8]

Along with these four issues — BWI reform, demographic change, energy and minerals markets, and advancing economic reform — a regular session examining current challenges in the global economic and financial outlook would also remain on the agenda. For this session, there was concern that discussions on global conditions can be repetitive, and heavily based on the latest views of the international institutions such as the IMF, World Bank and OECD, or revert to countries around the table listing recent developments in their economies. To encourage a policy-relevant discussion in Melbourne, it was agreed to have a theme-based conversation on the challenges of

7 See http://www.g20.org/documents/publications/2004_g20_accord_for_sustained_growth.pdf

8 There are 44 Ministers, Governors and heads of International Financial Institutions (IFIs) at the meeting table, and one supporting official from each country and international institution also allowed in the room. There is no video or audio recording of the meeting.

managing monetary and fiscal policy in the face of sustained above-trend global growth. The IMF and World Bank were asked to prepare short background papers on the subject, and selected countries were invited to open the general discussion.

As the key themes for Australia's host year became more defined throughout 2005, one issue that needed to be resolved was how to address development challenges. Development issues are a core part of the G-20's focus, reflecting the broad developing and developed country membership. The approach taken in 2005 by China had been to focus on development as a stand-alone theme. This allowed the G-20 to engage in the global debate occurring at the time around the Millenium Development Goals five years on from 2000. The approach taken by Australia for 2006 was that development should be embedded and highlighted in discussion and action on all of the major policy themes addressed by the G-20. This would not preclude special topics, such as aid effectiveness and the aid donor architecture, being addressed at members' discretion.[9]

Given agreement on the key themes for Australia's host year, policy preparation for the G-20 shifted focus at the start of 2006 to working out the detail of the material to be presented to Ministers and Governors for their consideration and decision in November, as well as continuing to contribute to debate in other forums on key issues such as BWI reform. The sequence of G-20 officials' meetings provided the structure for this preparation. G-20 deputies met twice in Australia during 2006, the first time in Adelaide in March and then in Sydney in October. At their first meeting, deputies examined challenges to the ongoing global expansion, shared insights into addressing impediments to domestic economic reform, explored views about BWI reform and a way forward on IMF quota and voice reform in particular, and explored ways to improve the effectiveness of aid. At their second meeting, deputies focussed on BWI reform, ways in which energy and minerals markets could support global economic stability and prosperity, and possible responses to the challenge of demographic change.

These meetings were supported by three workshops: the first in February in Tokyo on reform of the BWIs; the second in Banff, Canada, in June on energy and minerals markets; and the third in July in Sydney on the financial market dimensions of demographic change. These workshops brought experts from around the world to discuss the key substantive analytic and policy issues in each of these three themes with G-20 officials, with these insights brought directly into the following deputies' meetings. The background papers from these workshops were made available to the public on the Treasury and RBA websites. These workshops and deputies' meetings

9 Improving aid effectiveness was discussed by deputies at their meeting in March in Adelaide, and the Treasurer spoke on this issue at the meeting in Melbourne in November.

required extensive preparatory work within Treasury and the RBA and close engagement with other relevant government agencies and G-20 counterparts. These meetings enabled the development and testing of ideas in preparation for the meeting of Ministers and Governors.

Ministers and Governors had a substantive discussion on the issues selected by the Treasurer as priorities for Australia's host year. Their key decisions are expressed in the communiqué issued after the meeting.[10]

Each of the policy themes addressed by G-20 Ministers and Governors not only had specific and practical outcomes but also set in place a broader cooperative, strategic and stabilising approach to dealing with the issue. Three examples illustrate this.

The first is reform of the BWIs. Reflecting its origins, the G-20 has always maintained a focus on making the IMF and the World Bank more effective and legitimate. The G-20 was created in the aftermath of the financial crises in the second half of the 1990s, in recognition of the growing influence that emerging market economies now have on global financial stability.

There was a widespread view at this time that the IMF had failed to anticipate and effectively respond to these crises. One of the contributing factors identified was the failure of the Fund's governance arrangements to keep pace with the changes in the world economy, which eroded its effectiveness and authority. In particular, the quotas of fast-growing emerging market economies, including in Asia, had failed to keep pace with their increasing global economic weight.

While the responsibility for reform of the BWIs is a matter for the governance bodies of these institutions, other bodies can play an important role in finding and developing a consensus for reform.

Having laid some important groundwork the previous year, the G-20 played a key role in 2006 in helping move the IMF membership to agreement on an historic package of IMF quota and voice reforms in September 2006.

IMF Governors agreed to a package of reforms comprising early quota increases for the most significantly underrepresented economies (China, Korea, Turkey and Mexico) as a down-payment under a first stage of reform, and a commitment to deliver, over the next two years, a second stage involving a new quota formula designed to reflect members' economic weight, further quota increases for significantly underrepresented

10 See http://www.g20.org/documents/communiques/2006_australia.pdf.

members, and an increase in basic votes to strengthen the voice of low-income countries in the IMF.

The G-20's contribution involved building political support for reform, maintaining momentum at critical points, and contributing on the substance of proposals. In particular, the G-20 devised the two-stage approach to reform that was instrumental in achieving consensus within the IMF. It was largely through the G-20 that the international community agreed that quota and voice reform was necessary to enhance the Fund's legitimacy, identified it as a priority, committed to resolving the issue, and outlined a credible and feasible path to deliver an outcome.

In November, G-20 Ministers and Governors reaffirmed their commitment to delivery of the second-stage of IMF quota and voice reform and set out priorities for further significant reform of the IMF and the World Bank, including strengthening policies and instruments of the institutions and transparent, merit-based processes for the selection of management. The international economic community is now looking to the G-20 to help deliver on the second-stage of IMF quota and voice reform. South Africa, as host of the G-20 in 2007, has made further reform of the IMF and World Bank a key theme within its G-20 work programme.

The second example of a substantive policy outcome is the approach taken to energy and minerals markets. In Melbourne, Ministers and Governors pointed to some specific ways to strengthen these markets, including targeted reductions in fiscal subsidies (which tend to obscure the incentives to reduce demand for resources and look for efficiencies or sustainable alternatives when prices rise), strong support for the Extractive Industries Transparency Initiative (which provides for more transparency between extractive firms and source countries), and extending the Joint Oil Data Initiative to natural gas and with countries applying a common definition in estimating reserves (to provide more accurate data for consumer countries and markets).

More than these specific initiatives, the G-20 in Melbourne marked a strategic way forward to address energy or, more broadly, resource security. Regarding the stability of supply of, or demand for, energy and minerals as a 'security' issue can lead countries to try to rush to 'lock in' supply or demand as the solution to their problem, possibly inducing others to act in the same way and sharply increasing competition for access to resources. Rather than delivering 'resource security', such an approach can weaken stable access to supply or demand, raise the political heat and focus on securing national interests through any available means, destabilise international relations, and potentially increase the risk of conflict. The G-20 explicitly acknowledged the challenges of, and countries' concerns about, stable supply and demand, and firmly pointed to feasible and sustainable economic solutions to address them.

The G-20 agreed that the most sustainable way to address resource security is to make sure that markets work as well as they can. This can be achieved by: ensuring firms are in a position to explore, extract and trade; enabling the huge investment required to allow the expansion of supply, with almost half of this investment needed in developing countries; and facilitating trade to ensure that predicted substantial increases in demand can be met by supply.[11] The specific initiatives taken by Ministers and Governors at the meeting are practical ways to deliver a market-based response to energy and minerals security. Looking ahead, the challenge for the G-20 is to facilitate a broader discussion on the key principles that underpin well-functioning markets and the adequacy of the existing domestic and international architecture governing firm behaviour, investment and trade.

The third example of strategic policy outcomes in the G-20 is demographic change. 2006 marked the third year in which Ministers and Governors addressed a key aspect of demographic change. The G-20 looked at the broad implications for economic growth in 2004, for labour mobility in 2005, and for capital markets in 2006. The continuity and depth of approach has meant that there is a solid understanding of the many dimensions of the demographic challenge that countries face, as well as a good sense of the interconnections between them and of the need for international consultation and cooperation in addressing them. The 2006 meeting also came up with some specific initiatives to gain more information on costs and benefits of greater portability of pension and health benefits and on the adequacy of financial market instruments to manage long-term pension liabilities.

Two other outcomes of the G-20 meeting are particularly noteworthy. Ministers and Governors expressed particular concern about the Doha Development Round and the serious threat that growing protectionism and a failure to secure substantive trade liberalisation could pose to the global economy. They also agreed to convey and actively address these concerns within their own governments. In addition, Ministers and Governors underscored the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. They emphasised that increased development financing must be accompanied by improved aid effectiveness to achieve the Millennium Development Goals and agreed that the G-20 will work toward improving aid effectiveness and good governance in the period ahead. By the time of the meeting, all G-20 countries had pledged their support for the *Paris Declaration on Aid Effectiveness*.

11 Projections by the International Energy Agency (IEA) suggest the world energy demand will rise by almost 50 per cent from 2004 to 2030, with around US$8 trillion of new investment needed in the oil and gas sectors alone over the next 30 years — or around US$320 billion a year.

The role of the G-20 in the international architecture

The second strategic objective that Australia had in chairing the G-20 was to strengthen the forum as a pre-eminent part of the international economic and financial architecture.

Australia is a medium-sized market-based economy, highly dependent on an open and robust global economic system of trade, investment, finance and people movement. As such, we have a fundamental and abiding interest in a structure of international relations which is rules-based and supports the operation of markets as the primary tool for allocating resources within, and between, economies.[12] The fact that the G-20 has taken this approach from its inception and that its membership is active and encompasses all the major regions and countries of the world means that the G-20 is a forum of primary interest and importance to Australia.

Cross-border economic interactions and interdependencies are now so extensive and broadly based, that most of the economic issues which policymakers face go well beyond national borders and have become inherently international. Consistency of policy across national borders and cooperation in information sharing and policy outcomes can be important. Globalisation has encompassed developed and developing countries alike and the latter have become a larger and increasingly important part of the world economy.

The original reason for setting up the G-20 was as a mechanism to bring systemically important industrialised, emerging-market and transition economies together to help prevent financial crises and ensure international global financial stability. The substantive work of the G-20 in its early years focused on strengthening not only the Bretton Woods institutions but also domestic financial systems and monetary and fiscal frameworks, on the basic premise that well-structured systems and macro policy frameworks reduce the likelihood of domestic policy-induced crises and contagion. The creation of the G-20 was an explicit acknowledgement that strengthening the international financial system has to actively involve key developing countries.

It was understood at the time that the focus of the G-20 could evolve and broaden over time. As Paul Martin, the inaugural chair of the G-20 and then Canadian Finance Minister, said in 1999: 'There is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview'. As the financial crises receded in time and as members strengthened their domestic macroeconomic frameworks, the focus of the G-20 broadened to other economic issues, including demographic change and, in Australia's host year, energy and minerals

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12 See 2006-07 Budget Paper No. 1, Statement 4: Australia in the World Economy.

markets. Table 1 summarises the key issues addressed each year since 1999, showing that discussion has broadened over time. It also shows the agenda has contracted to fewer issues recently so that each can be discussed substantively.

Table 1: Major policy issues addressed by the G-20, 1999-2006[13]

1999
Financial system vulnerability, crisis prevention and management
Codes and standards
BWI reform
Exchange rate regimes
2000
Financial system vulnerability, crisis prevention and management
Codes and standards
Financial abuse/crime
Capital flows and capital account liberalisation
BWI reform
Exchange rate regimes
Globalisation and regional integration
Principles for domestic economic policies
2001
Financial system vulnerability, crisis prevention and management
Codes and standards
Financial abuse/crime
Capital flows and capital account liberalisation
BWI reform
Globalisation and regional integration
Principles for domestic economic policies
2002
Financial system vulnerability, crisis prevention and management
Codes and standards
Financial abuse/crime
Capital flows and capital account liberalisation
BWI reform
Exchange rate regimes
Globalisation and regional integration
Principles for domestic economic policies
Aid effectiveness, poverty reduction

13 This does not include reference to the discussion at the start of each G-20 meeting on global economic and financial conditions.

Table 1: Major policy issues addressed by the G-20, 1999-2006 (continued)

2003
Financial system vulnerability, crisis prevention and management
Codes and standards
Financial abuse/crime
Exchange rate regimes
Globalisation and regional integration
Principles for domestic economic policies
Aid effectiveness, poverty reduction
2004
Financial system vulnerability, crisis prevention and management
Codes and standards
Financial abuse/crime
Capital flows and capital account liberalisation
BWI reform
Exchange rate regimes
Globalisation and regional integration
Principles for domestic economic policies
Demographic change
2005
BWI reform
Globalisation and regional integration
Principles for domestic economic policies
Demographic change
Aid effectiveness, poverty reduction
2006
BWI reform
Principles for domestic economic policies
Demographic change
Energy and minerals markets
Advancing economic reform
Aid effectiveness, poverty reduction

The broadening coverage of issues discussed by the G-20 reflects the value that its members accord it. In large part, this appears to reflect three factors. First, the issues that the G-20 addresses are central to the stability of the global economy and finance. Ministers and Governors have to tackle substantive and often difficult issues that are directly relevant to the prosperity of the G-20 membership countries.

Second, as a result of the specific make-up of its membership, the G-20 brings together the key countries and regions relevant to address these issues. Given the degree of interaction and interdependence between countries and the growing importance of some developing countries, it is no longer possible to address key economic or financial issues without a combination of industrialised and emerging market economies. Financial markets are now deeply interconnected and 'shocks' in one can be rapidly transmitted to others. Global imbalances are just that — global. Demographic change affects all countries and the scope for 'demographic arbitrage' between developing young countries and developed old ones is considerable. Energy and minerals security cannot be addressed without the likes of key consumers like China, Europe, India, Japan and the United States being at the table with key producers like Australia, Brazil, Canada, Russia and Saudi Arabia. The membership of the G-20 makes the forum important.

Third, the style of the meeting itself hopefully makes it useful to Ministers and Governors. The aim is to provide an environment conducive to substantive and rigorous discussions between principals. This is facilitated by the privacy afforded by having few officials in the room, and relaxed and conversational interaction being encouraged by the Chairman. The objective is to make the meeting one that Ministers and Governors genuinely want to attend and participate in.

The policy agenda and logistical arrangements — down to the size and shape of the table and 'feel' of the meeting room — were all planned to make the meeting interesting, relevant and enjoyable for Ministers and Governors and encourage easy exchange between them. In this way, the Melbourne meeting provided an opportunity to consolidate and enhance the relevance of the G-20.

One element that is important in this respect is that for a number of years, the growing role of the G-20 as a global issue circuit-breaker has become apparent. For example, there was deadlock within the OECD in addressing the effect of tax havens on the revenue base in other countries. The G-20 entered this policy debate and, with a different membership, was able to form global consensus on the need to avoid abuse of tax havens. In addition, the G-20's role in 2006 in the outcome on IMF quota and voice reform helped break a long-standing deadlock within the IMF. When delivered, a new quota formula will represent the first major change in the way quotas have been calculated since the 1960s. The G-20 was able to perform this role because of its broader representation including key emerging market economies when agreement on the issue was not possible within the G7 or the IMFC. Similarly, by having a wider set of countries with direct interests join the discussion and by broadening the focus beyond energy to minerals, the G-20 was able to broker a more practical and comprehensive market-based approach than the G8 on resource security.

The G-20 has been able to reach consensus on issues that have become jammed elsewhere. This in part indicates the importance of having a range of forums examining issues: some overlap between forums can be useful in working through issues and finding (or making) opportunities to strike agreement.

The ability of the G-20 to find consensus on issues that other forums could not may also reflect something about the nature and balance of country membership in the G-20. The G-20 comprises the systemically significant countries of the world rather than just the big economies. It includes mid-sized economies like Australia, Canada, South Korea, South Africa, Mexico and Turkey.

Having mid-sized countries at the meeting can strengthen the forum and its ability to reach consensus. In the first instance, having key mid-sized countries at the table provides a higher degree of legitimacy to decisions. The G-20 is not a universal institution (like the IMF or World Bank) but it does comprise around 90 per cent of world GDP, 80 per cent of world trade and two-thirds of the world's population. The active engagement of the key mid-sized economies ensures that the forum's decisions are not just the big countries deciding things for the rest of the world. Having mid-sized countries actively participating in the forum also provides an opportunity to broker consensus between, and concessions by, the big countries that they are not able to make between themselves. Tensions between major economic powers can make it hard for them to find agreement at times and having relatively smaller countries with a stake in effective international mechanisms at the table can ease pressures, provide a circuit-breaker, and help facilitate finding a common position.

Looking forward, this feature of the G-20 — as a mechanism to ease frictions between the world's economic powers — is one to be nurtured. The G-20 works and so the focus should be on consolidating its role and strengths, as outlined above. The effectiveness of the G-20 suggests that it provides a natural forum for economic engagement between key industrialised and emerging market countries.

This can be seen to have implications for the policy engagement of the G7 with developing countries. The G7 is a grouping of industrialised countries. As has been stated before, it is now broadly recognised that many of the economic issues that require global solutions cannot be addressed by industrialised countries alone: the G7 cannot 'solve' global economic problems, even if it can be a useful forum for its members to form and articulate their own perspectives. A narrow model of G7 engagement with developing countries, such as a G7+BRICS model[14], appears limited in comparison to the G-20 because it lacks the broader legitimacy and opportunity for consensus provided by having key mid-sized countries at the table. Other difficulties with G7+BRICS type discussions, at least as currently configured, are that they are relatively euro-centric, rather than reflective of the main regions of the world, and treat the BRICS as 'guests' to part of the discussion by the G7 countries. The G-20 draws broadly across major regions and treats all members as equal partners.

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14 BRICS refers to Brazil, Russia, India, China and South Africa.

The G-20 can provide a powerful tool to address tensions between various groups of countries, be they tensions within regions, among developing or industrialised countries, or between regions and between developing and industrialised countries. The G-20 provides an opportunity to resolve differences between countries at the meeting itself or on the margins in bilateral meetings between countries.

The balance of global economic influence is changing, and the G-20 is an important step in addressing this. One challenge that the G-20 faces is to help facilitate and smooth the economic rise of a range of diverse emerging market or transition economies, including China, India, Brazil and Russia, into the mainstream of global policy influence and cooperation. Forums like the G-20 can do this not just by providing reference points for sustainable development in emerging markets but also by providing a discipline on the actions of the incumbent industrialised countries — especially to limit defensive protectionism — and greater predictability as to how incumbent economic powers will react to emerging ones. This process is not necessarily a smooth and uncontroversial one; the G-20 is one of a set of international mechanisms to support the process.

The agreement by G-20 members on the importance of medium-term macroeconomic policy frameworks and competitive and open markets to meet supply and demand, as shown by the *G-20 Accord on Sustainable Growth*, is important in facilitating adjustment because it marks acceptance of a broad common approach to economic management. But it does not resolve all challenges because countries can mean quite different things when they talk about 'market mechanisms'. Countries have different perspectives and preferences about the desirable degree of public ownership, the extent to which competition should operate (especially when it impacts on social cohesion or induces change), and the desirable amount of variation in prices (be they prices of financial assets, labour, food or energy).

Differences in perspective can give rise to a rich and lively discussion, and the expression of these differences is a necessary step to working out how to resolve issues. To the extent that views about the desirable features of markets differ more among the G-20 than in smaller, more homogeneous groups like the G7, it should be expected that the consensus or compromise forged within the G-20 will differ from that formed in smaller groups. An important implication of this is that the G-20 will not act as if it is just a bigger G7; it is a different beast. Agreements forged within the G-20 will not necessarily be the same as G7 agreements.

Australia and the G-20

The third strategic objective in hosting the G-20 was to use the forum as a means to directly advance Australia's interests. This has a number of dimensions.

In the first instance, having the Australian Treasurer as Chairman of the G-20 provided an opportunity to reinforce Australia's reputation as a strong advocate for, and example of the power of, sustainable economic policymaking, openness, and flexibility. It was, too, an opportunity to demonstrate the value of Australia as a practical, fair and principled player in international economic relations — a country that is able to articulate what the issues are and then help find common ground on them in a way that advances economic stability and prosperity. Having the meeting in Melbourne also provided an opportunity to showcase Australian life and business.

Hosting the forum provided other important opportunities. While Australia is a mid-sized economy, it has a relatively small population. Understanding how thinking on issues is developing around the world and drawing practical insights from the experience of others who are facing similar problems are all important in ensuring that policy advisors and decision makers are adequately equipped to address issues as they arise. Hosting the G-20 provided wide engagement with other countries and exposure to the best of analysis, ideas and informed economic policy judgments around the world. Chairing the forum also provided an opportunity to build closer political, economic and official ties with our strategic partners, making it easier to pursue national goals.

Closer to home, hosting the G-20 provided an opportunity for Treasury to strengthen its own capabilities. This included strengthening internal capacity for analysis of key economic issues, especially on energy and minerals markets and demographics, better understanding of counterparts and stakeholders, and strategic policy development. The learnings for Treasury have gone well beyond improving in-house technical policy expertise. Treasury was responsible not only for developing policy advice for the Treasurer on the G-20 but also for the logistical preparations and arrangements for the Melbourne meeting, as well as the officials' meetings that led up to it. The skills to prepare for, and run, these meetings had to be developed and this marked an important step forward in the skills set available within Treasury, notably with strategic planning, risk analysis, project management, and stakeholder communication skills. These are important skills and the challenge is to ensure that they are retained and extended as appropriate.

Conclusion

The Group of Twenty Finance Ministers and Central Bank Governors is a global forum of considerable strategic importance to Australia. Hosting the G-20 meeting in 2006 was a once-in-a-generation opportunity for Australia, particularly in helping to achieve practical policy cooperation on issues affecting global economic prosperity, strengthening the place and role of the G-20 in the international architecture, and advancing Australia's reputation and interests. The Melbourne meeting achieved substantive policy outcomes — particularly with respect to reform of the Bretton Woods institutions and seeking economic and market solutions to achieve energy and minerals security — as well as generating the opportunity for frank and substantive exchange between Ministers and Governors on the issues they addressed.

Chairing the G-20 has now passed to South Africa, with further progress expected on major global policy challenges. We look forward to continuing to work closely with our management troika counterparts from South Africa and Brazil (the 2008 chair) to continue the success of the G-20.