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# 1

# *G-20 Summit at Five: Time for Strategic Leadership*

The leaders' level G-20 was born at a time of crisis and panic.[1] In early October 2008, when the United States issued the invitation to the G-20 heads of state or government to assemble in Washington, D.C., on November 15, the world was facing the danger of a total collapse of the financial sector in the United States. With global trade and financial links having grown over the decades, particularly after the fall of the Berlin Wall in 1989, a financial collapse in the largest economy—and the financial center—of the world would have brought down the entire world economy.

The United States had to—and did—act to arrest the collapse, through unprecedented intervention in its own banking and insurance sectors. This was quickly followed by equally unprecedented fiscal and monetary expansion and even intervention in the industrial sector, with the government rescuing General Motors at the end of March 2009. These actions contained the crisis but did not prevent a drift toward worldwide recession. It was clear that the financial-sector virus was spreading and that expectations were shattered worldwide. The world was in danger of a steep decline in investment and consumer demand, mass unemployment, and beggar-thy-neighbor protectionist trade policies, triggering a deflationary vicious cycle that the world

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1. Membership in the leaders' Group of Twenty (G-20) is based on the membership in the finance ministers' G-20, which was formed in 1999.

had not gone through since the Great Depression of the 1930s. A floor had to be put under expectations, a sense of resolve had to be projected, fiscal expansion had to be encouraged wherever feasible, and protectionist reflexes had to be countered.

This is how the leaders' level G-20 was born. Previous resistance to including the large emerging countries at the head table, formerly monopolized by the G-7, evaporated. China, India, Brazil, and others were needed for a global psychological and substantive response. The fact that a finance ministers' G-20 already existed allowed the United States to circumvent debate on inclusion. It was easier to simply invite the government leaders of the existing group of twenty than to try to agree on who should be included in or excluded from the November meeting. There was no time for such a debate.

It is not possible to measure exactly the impact of the first (Washington) and second (London) G-20 meetings. We cannot be sure of what would have happened without these meetings. Most observers agree, however, that the combination of decisive action by the U.S. Federal Reserve and U.S. Department of the Treasury, the G-20 commitment at the Washington meeting not to raise trade barriers, and then the signal at the April 2, 2009, London meeting of broadly concerted fiscal expansion and a green light for tripling the "firefighting" capacity of the International Monetary Fund (IMF) did make a critical contribution to turning around expectations and arresting what was threatening to become a global economic free fall.

## Five Years Later

Five years after those first two meetings of the leaders' G-20, the key question is whether these summits, which have become an informal institution, can really add ongoing value to global economic governance. At the time of writing, in early 2014, it is anticipated that the Brisbane meeting in November 2014 will take place at the end of a year of overall global recovery, which has not only allowed gradual normalization of monetary policy in the United States but has also seen a tentative recovery in the euro zone.

The recent past is full of examples suggesting that such predictions should always be treated as tentative. A bad surprise cannot be ruled out. A great deal of uncertainty still characterizes the situation in Europe, and question marks have also appeared in China relating to local debt, other possible contingent liabilities of the public sector, and the shadow banking sector. We may yet witness plenty of instability because of the adjustment in the monetary policies of the

United States and other countries (see chapter 5, this volume) or the political consequences of Russia's approach toward Ukraine (see chapter 4). The political tensions in Eastern Europe could still derail the G-20 process in 2014, which would be a great pity and have long-term costs. But apart from this danger, the world will not have been in economic crisis mode in 2014, and G-20 leaders will be meeting at a time when the gathering could demonstrate that it has lasting value for the stability and good health of the world economy.

The absence of an acute crisis could lead the G-20 meetings to become purely ceremonial gatherings, which continue to take place because of the inertia in such processes, leading to cynicism and disappointment all around. Alternatively, the absence of an immediate crisis could be an opportunity for the G-20 to tackle in a sustainable way the major structural medium- and long-term issues that continue to face the world economy. World growth in the past few years has relied on a degree of central bank support that may already be leading to new unsustainable asset bubbles while unemployment remains unacceptably high. The challenge now is to create sustainable world growth based on real investment that stimulates total factor productivity gains and new long-term jobs in the value added chains of the products and services of the future. It is also time to make sure that key economic institutions are robust and able to withstand unexpected shocks if and when they occur.

The Australian National University and the Brookings Institution joined forces and assembled the chapters in this book with the expectation that the leaders will indeed see 2014 as an opportunity to address longer-term challenges and to transform the G-20 from a "crisis committee" into a "steering committee" for the world economy, making it part of a lasting and useful feature of global economic governance.

## The G-20 and Global Public Goods

It is possible to group the big issues before the G-20 under six broad headings: macroeconomic interdependence, financial-sector interdependence, trade, energy and climate, development, and economic governance in the global system. The chapters in this book address the issues under all six headings. The emphasis is on interdependence, spillovers, or the global public-good nature of good policies. Scott Barrett, in his excellent book *Why Cooperate? The Incentive to Provide Public Goods* (2007), distinguishes three types of global public goods: those that can be delivered unilaterally (or minilaterally) by the "single best effort" of a country (the invention of a vaccine, for example), those public

goods the delivery of which depends on the performance of "the weakest link" country (such as securing fissile material), and those public goods that depend on the combined "aggregate efforts" of all states (reducing the amount of carbon in the atmosphere is an excellent example). The "aggregate efforts" and "weakest link" global public goods generally call for international cooperation, although delivery of the "single best effort" public good may also require international cooperation—because those who can provide the good may hope that some other country can, and it will not want to bear the cost alone.

Fiscal and monetary policies, financial-sector policies and regulations, trade policies, energy and climate policies, and development policies all have associated spillover effects and free rider problems typical of public goods. Major monetary policy decisions in one large country have effects way beyond its borders. If the U.S. Federal Reserve had decided to stop its US$85 billion quantitative easing, asset-buying program overnight, the immediate effects would have been devastating from Rio de Janeiro to Istanbul and Delhi, and this would have triggered negative chain reactions around the globe. If the European Central Bank in mid-2012 had not forcefully declared that it would do "whatever it takes" to preserve the integrity of the euro, the European crisis would no doubt have gotten out of hand. If most G-20 countries had not engaged in large fiscal stimulus programs in 2009, the world economic slowdown could have become a depression. These are all examples of the way in which global macroeconomic interdependence makes appropriate macroeconomic policies into a global public good with both aggregate-effort and weakest-link characteristics.

Trade, financial sector, and climate and energy interdependencies are for the most part of a somewhat long-term nature. In these areas too, there are large spillover effects as well as the go-it-alone temptations inherent in public goods. The collapse of a single large financial global institution, for example, can precipitate a worldwide crisis. Furthermore, robust and well-functioning financial markets are needed to support growth across national boundaries. Thus financial-sector regulation is a global public good with both weakest-link and aggregate-effort characteristics. The weakest-link characteristic is the linking of, for example, the failure of a single bank (Lehman Brothers) or of a single even smallish country (Greece) to massive cross-border effects. It is an *aggregate* effort because each country's financial-sector reforms can contribute to growth worldwide and the strengthening of each country's regulatory system can affect financial stability on a global scale. An international trade system that maintains confidence and prevents beggar-thy-neighbor protectionism is also a global public good. In the energy and climate area, the greenhouse gas emis-

sions of one country or of one city merge in the atmosphere with those of all other parts of the world to create global warming. Each part of the world benefits, therefore, from all efforts—its own and all others'—to mitigate carbon emissions. Limiting climate change is therefore very much an aggregate-effort-type global public good. In the area of climate change, in particular, each country may be tempted to rely on other countries' emission reductions so as to minimize its own costs.

The promotion of economic development and the fight against poverty is also an international public good, in addition to its direct importance for those who have yet to enjoy the benefits of economic, social, and political security that it delivers. The global development and poverty reduction agenda of the G-20 is therefore of interest to the entire global community. In contrast, what small countries do in some areas of policy may not have much effect on others. If Cambodia, Honduras, or Malawi, for example, choose to put up large trade barriers, it would hardly have an effect on the rest of the world, although it would still hurt their own consumers and exporters substantially. But there are circumstances in which what small countries do matters greatly to others. This is the case, for example, with eradicating contagious diseases, combating money laundering or tax evasion, and controlling fissile material. Dealing with these problems requires providing weakest-link-type global public goods. Take the eradication of a disease like polio: if it reappears in a place like Afghanistan, it can spread from there and become, again, a global threat. Thus negative spillovers from very poor or fragile states can be very serious. Small rich states, too, can create negative spillovers, an example being the difficulties experienced by the entire world because of tax havens and small noncooperative jurisdictions facilitating tax fraud, money laundering, crime, and corruption.

While one should not underestimate the importance of weakest-link challenges, in many policy domains, the larger the country, the greater the likelihood of spillover effects from national policies. This provides a rationale for a G-20 grouping of large economies: their decisions are critical for the world as a whole. Yet, as discussed above, small countries can also affect the whole world. For both reasons, therefore, the G-20 must find ways to involve the global community as a whole in its deliberations and work programs.

Fortunately, the possibility of mutual spillover effects increases the chances for cooperative outcomes in groups such as the G-20. There is an incentive to cooperate. A good example is the way the U.S. Federal Reserve defines its mandate and its policy objectives. Its overall policy is based on purely domestic U.S. objectives, as Dennis Lockhart, president of the Atlanta Federal

Reserve Bank, notes: "You have to remember that we are a legal creature of Congress and that we only have a mandate to concern ourselves with the interest of the United States. Other countries simply have to take that as a reality and adjust to us if that's something important for their economies." The effects of U.S. policies on others are not relevant to decisions of the Federal Reserve unless there are feedback effects from other countries *on the American economy*.

Lockhart's straightforward statement—as well as other pronouncements by Federal Reserve officials, including former chair Ben Bernanke himself—make it clear that the Federal Reserve's tapering policies are included in its mandate to consider only effects on the U.S. economy. If the pace of tapering (that is, reducing the size of its bond-buying program) plunges the South African or Turkish economy into recession because of abrupt capital flow reversals, it would be of no concern to the United States, because South Africa and Turkey by themselves are too small to cause significant feedback effects on the U.S. economy. But if the capital flow reversals were more widespread, affecting a large number of emerging market economies, including large countries such as Brazil and India, there would be a nonnegligible negative feedback effect on U.S. exports to these countries, as well as on U.S.-based financial institutions—and therefore on U.S. employment. If the tentative recovery in Europe also were affected, the feedback loop would be even stronger. Moreover, there would be second-round effects: financial markets could suffer globally, and the decline in effective demand in the immediately affected countries would trigger further rounds of demand contractions in their trading partners. This implies that, even with only American interests in mind, the Federal Reserve still has to take into account the impact its actions may have on others. The same can be said for the policies of the European Union, the policies of Japan, and the policies of China—and in fact the policies of all members of the G-20, if these policies would be carried out by a large enough group of countries. Size increases the importance of positive or negative spillovers and strengthens the incentive to cooperate within the G-20.

## The G-20 and Global Economic Governance

Size alone does not, however, solve the problem of legitimacy, or the problem of the enforceability of G-20 decisions in some kind of legal or treaty-based framework. Even a "club" representing more than 80 percent of world GDP and more than two-thirds of world population cannot alone resolve the

threats coming from weakest-link-type global public goods. G-20 decisions, which really take the form of policy proposals rather than enforceable policy strategies, must in most cases be brought before the governance organs of treaty-based institutions, such as the International Monetary Fund, and be adopted by them on behalf of the global community. For example, consider the decision at the London meeting in 2009 to create almost 200 million units of new special drawing rights. This G-20 proposal was then brought before the IMF executive board and adopted by that board in September 2009. The G-20 cannot decide for others, although the voting power that G-20 members have in most international institutions that have governance systems where votes are weighted by size (however measured) means that the proposals are likely to become decisions. These decisions will then become as binding as decisions of international institutions can be.

The nature of the public global goods and interdependencies involved, as well as the form that global economic governance takes, are the underlying topics that bind together the thematic chapters of this book. The volume also includes a chapter focusing on the role of China, a country that is now clearly the second "giant" on the world scene, as well as a chapter dealing with the role of regional organizations as complements to or competitors of the G-20. Both of these issues are crucial. China in 2014 accounts for about 12 percent of world GDP when measured by market prices and close to 20 percent when measured by purchasing power parity prices. Given that neither the European Union nor the somewhat smaller eurozone yet acts as a single player at the G-20, or in other settings, the United States and China are the two giants on the world scene. China is a newcomer to this role, and how China approaches the G-20, and global economic governance more generally, will have a determining effect on the prospects for international economic cooperation (see chapter 12). In this context, the way the United States approaches China, in turn, will have a great deal of influence on China's own behavior. China's rapid rise and strong growth trajectory mean that it is having a new and large effect on established markets. Although the Chinese economy is not yet as large as that of the United States, the incremental effect of China on the global economy is huge.

Finally, not everything can or should be dealt with in a global context. Regional affinities and strong within-region interdependence make it essential that global economic cooperation is complemented by regional cooperation (see chapter 13). Regional institutions can also play the very valuable role of bridges between the large G-20 member countries and their smaller

neighbors. The Chiang Mai Initiative and the Asian Development Bank can complement the IMF and the World Bank. They can, of course, also be regarded as alternatives to these global institutions. In practice, they are both complements and competitors, and they point the way to the interaction among regionally inclusive institutions, globally inclusive institutions, and the G-20. This interaction will determine the nature and the efficacy of global economic governance.

## Looking Forward

As the G-20 enters its fifth year, what are the priorities to which it should now turn? In this section we consider mutual assessment and stability, growth and development, infrastructure investment, structural reform, trade, investment, and the agenda for the next G-20.

Now that the troika organizational structure—in which the immediate past, current, and next G-20 hosts cooperate in setting the agenda—is established, the top priorities of the G-20 are avoiding agenda creep, focusing on key issues, and ensuring that there is follow-through. Entrenching the G-20 as an effective institution for shaping global economic governance and for establishing its value requires using the heft of the summits to effect change and set policy direction. In the coming year or two, Russia, Australia, and Turkey make up the troika charged with driving the process.

The macroeconomic prudential systems that have been recommended to buttress macroeconomic policy coordination—and that might assist in ongoing crisis management—are still in the making (see chapter 8). Some important reforms to the governance of international institutions are already agreed upon but are not yet fully implemented. Major gaps exist in global governance, for which leadership is required. As a global economic steering committee, the G-20 could help prioritize issues for the global community—and for international financial institutions in particular. The G-20 can in fact bring focus to the work of these international institutions.

The G-20 was notably effective during the peak of the global financial crisis. Now that the global economy has moved from crisis mode to recovery and the Bretton Woods momentum of 2008–09 has waned (see chapter 2), the group is seen as adopting a stance of lesser urgency. The problems are claimed to be not urgent, the agenda is said to be too broad, and the need and possibility for coordination and cooperation among the diverse countries in the G-20 combine to make the group less relevant than five years ago. These

claims have some merit. But the idea that there is insufficient urgency in the current problems to justify strong global leadership is not persuasive.

Can Australia, Turkey, Russia, and successor G-20 presidencies turn around this new normal? Coming out of the crisis into recovery, renewed leadership of the global economy is needed to reassure the world's economic actors that they are in capable hands and that attention is being paid to the principles and institutions that allow for the best governance in this time of enormous change and uncertainty.

There are expectations that the Australian G-20 summit could raise the bar in leadership of the global economy by prioritizing growth within the G-20 framework for strong, sustainable, and balanced economic growth that was established by the Pittsburgh G-20 summit in 2009. Australia has an opportunity during its G-20 presidency to broaden the framework and to reform the Mutual Assessment Process.

### *Mutual Assessment and Stability*

The G-20's 2009 Framework for Strong, Sustainable, and Balanced Growth (G-20 framework) involves a process of mutual scrutiny through peer reviews of medium-term policy trajectories submitted by governments to the IMF, which puts them together into a global outlook. This process can reveal misalignments between countries that can generate dangerous imbalances and inconsistencies that can create damaging spillover effects and risks for the global economy. The G-20 process of review, scrutiny, and peer pressure—the Mutual Assessment Process (MAP)—is facilitated by the IMF but run by the G-20 countries themselves. In the early years, the focus was on global imbalances between the United States and China, when overconsumption and fiscal and trade deficits in the United States were mirrored by oversavings and fiscal and trade surpluses in China. This problem has waned, although the surpluses of the oil-exporting countries and of Germany are still large enough to pose a problem to the world economy. Moreover, the MAP should be viewed not just as a mechanism to cure an illness but also as one to prevent new ones.

The basic critique of the framework and the MAP is that the framework is too narrow and the MAP too weak. The framework is too narrow because it focuses on macroeconomic imbalances, such as those between the United States and China, and ignores the potential of financial markets, institutions, and firms to create systemic risk. The Independent Evaluation Office of the IMF concludes that the IMF, in the run-up to the crisis in 2008, "appropriately

stressed the urgency of addressing the persistent and growing global current account imbalances, but it did not look at how these imbalances were linked to the systemic risks that were building up in financial systems."

The Australian presidency has already taken two steps to strengthen the IMF's role in building "the resilience of the world economy." One is to propose a synthesis report within the IMF that will bring together the macroeconomic outlook work on global imbalances with the financial analyses of systemic risk to provide an integrated view of the global economy and the global financial system. The second is to make sure that, once integrated systemic risk assessments are available, they are reviewed at an appropriate policymaking forum, in which judgment calls can be made that mitigate potential upheavals before they occur (see chapter 6).

Hence, broadening the framework to include financial stability as an element of sustainability is moving in the right direction. So too is including financial analyses alongside macroeconomic policy assessment. The MAP has to have a high level of policy accountability and has to permit IMF staff to bring the financial and macroeconomic policy assessments together to strengthen their candor, insight, and pressure on institutional and policy weak points. It would be expected that by the end of the Australian presidency these efforts will bear fruit and that the international arrangements for systemic risk assessment and review will be stronger and more reliable as a result.

### *Growth and Development*

Strong G-20 leadership is important in key areas. With the global recovery under way but still fragile, the G-20 needs to present a credible public message that its members are pulling together to boost economic and job growth. Global growth is still too reliant on unsustainable monetary stimulus, and there still is a sizable output gap, evident in above-average unemployment rates. The need is for high-quality growth driven by private investment. Such investment can benefit from stabilizing expectations about macroeconomic policy, reducing unnecessary bureaucratic burdens on the private sector while making regulation more effective and growth friendly, strengthening the business operating environment, and improving investment in infrastructure, including through private-public partnerships.

The mix of macroeconomic policies supporting the global economy, in some countries with fiscal space, may have overemphasized monetary expansion measures and underutilized fiscal expansion measures. In other countries, monetary policy has been excessively cautious. The composition of fiscal pol-

icy packages also matters. A more growth-oriented mix can generate better social outcomes by reducing poverty, inequality, unemployment, and domestic conflict (see chapter 7). This enhances the social sustainability of prudent economic policies, strengthening their trajectory and impact.

The G-20 framework should also be broadened to include sustainable development in all countries, not just developing countries, to ensure that environmental sustainability is integrally connected to mainstream policy decisions and not marginalized to environmental and development ministries (see chapter 3). The G-20 can influence thinking on development issues by aligning its agenda with work over the next two years at the United Nations and in member capitals on the post-2015 development agenda that will follow the era of the Millennium Development Goals (MDGs). This shift would be a strategic move and would raise the profile of development as a universal public concern, embracing core issues for developing countries not represented in the G-20. The G-20 Development Working Group would continue to work through development program issues and coordination challenges that require that international institutions work together in dealing with increasingly cross-sectoral issues.

The MDGs in the end became developing-country ambitions that did not involve advanced economies as partners but as donors, a much more restricted role. Elevating the notion of sustainable growth trajectories in all countries to the status of a universal mobilizer in the post-2015 agenda would move that agenda beyond the MDG focus (see chapter 9).

Affirmation in 2014 of the G-20 as the premier forum for providing strategic guidance on the global economy and on other major global issues is a core objective. Australia, one of the smaller economies, but one with deeply interdependent relationships with the other five Asian G-20 member economies, needs the G-20 to succeed to preserve a measure of influence both in global affairs and in its region.

The focus should be on promoting polices that will support demand while improving longer-term growth and development prospects by implementing reforms already agreed or to be agreed to by G-20 countries. That would help create a climate for investment-led growth—prioritizing increased infrastructure investment and structural (including trade and taxation) reform. Future efforts could build on financial reform measures currently under way to stabilize the global financial system so as to create incentives for long-run investment in directly productive activities and worldwide investment in infrastructure as foundations for private sector growth. These reform measures and systemic

incentives need to be completed and the progress on them communicated (see chapter 8).

The February communiqué of the finance ministers' G-20 made it quite clear that the approach was a decentralized one, with each country making an effort to implement growth-enhancing national policies. It was no commitment to some kind of harmonized G-20 policy package. And yet in the work of the IMF, the OECD, and the World Bank on macroeconomic and reform priorities prepared for the February Sydney meeting, the emphasis was on the need for cooperation to ensure more rapid global growth. Effective cooperation would mean that countries with major current account surpluses would boost domestic demand, while countries with large current account deficits would pursue more restrictive macroeconomic policies. Earlier work by the IMF in the context of the mutual assessment process had suggested the importance of globally coordinated macroeconomic policies. For the G-20 to realize its full potential, much greater willingness by the nation-states to coordinate their policies would be desirable.

Growth also crucially depends, of course, on long-term structural reforms on the supply side of individual economies. These structural policies too can have positive spillover effects, as supply side–induced growth can generate greater demand for imports and stimulate world trade. The income growth-lifting strategy of the G-20 will have most traction, especially among emerging member economies, if it encourages G-20 governments to commit to macroeconomic policies and structural reform measures that are mutually complementary as well as growth enhancing. The ambition is for a G-20 leaders' meeting in November 2014 that goes beyond the finance ministers' meeting in encouraging a coordination of macroeconomic policies that connects closely to agendas for structural reform.

### *Infrastructure Investment and Structural Reform*

Financial stability and growth are commonly seen as trade-offs rather than complements. This was especially true when financial stability meant price stability or the absence of inflation. But after 2008 financial stability means stable financial markets and sound financial institutions. In this new context, there is a need to realize that protecting against downside risk in financial markets—by adopting financial regulatory reforms and prudential policy measures intended to reduce leverage, speculation, and volatility—may also provide incentives to engage in long-term investment in productive activities rather than speculative investment in financial instruments disconnected from pro-

ductive activities. A greater focus on "financial stability for growth" could give a positive turn to these measures, by more directly promoting private sector growth, investment in infrastructure, and sustainable energy systems, which are part of the G-20 Australian growth agenda.

Greater infrastructure investment leading to sustainable economic growth and global economic development can be the central pillar of the G-20 agenda, underscoring a global priority on private sector growth for greater job creation. Increased well-targeted infrastructure investment can be funded through fiscally prudent public spending, greater use of private infrastructure investment funds, and the activation of programs run by multilateral financial institutions.

A special opportunity to mobilize funds and structural reform to facilitate infrastructure investment is through the Chinese-proposed Asian Infrastructure Investment Bank. The reform agenda for Asian infrastructure projects provides a guide to how this could occur. The Asian Development Bank has identified US$8 trillion of national infrastructure projects and more for transborder projects. The Asia-Pacific Economic Cooperation (APEC) forum is leading initiatives to accelerate these projects and ensure that they are delivered. In addition to establishing an Asia Infrastructure Investment Bank, the initiatives include strengthening financial channels and gaining commitments to structural reform. This multipronged approach will generate the needed synergies for greater long-term job growth (see chapter 13).

An outline of how these proposals can be taken forward in Asia would be an important contribution to building a focused, sustainable, growth element into the G-20 agenda.

### *Trade and Investment*

Maintaining open global trade and investment is fundamental not only to the global economic recovery but also to the ongoing strength and dynamism of the global economic system. While the G-20 played some role in limiting the retreat to protectionism during the financial crisis, the World Trade Organization (WTO) has struggled to keep trade liberalization on course, and there is less coherence in other trade and investment liberalization initiatives. Emerging economies also need more open trade and investment regimes if they are to join international production networks and value chains. International trade has been a poor cousin of global macroeconomic and financial reform on the G-20 agenda (see chapter 10). There is no more important priority for the G-20 looking forward than to develop a proposal

to renovate the global trading system. While the WTO is the anchor of open trade, it needs to be fixed and a stronger regime for investment put in place.

The G-20 needs to put its weight behind thinking through the improvement that is now needed to reform the global trade and investment regimes. This strongly progrowth agenda for the G-20—implementing financial reforms to enhance investment, and prioritizing infrastructure investment, structural reform, and reform of the global trade and investment regimes—creates synergies among these priorities to generate high-yield outcomes. It should also engage the emerging economies, especially China, Indonesia, India, and Brazil. It is an agenda that matches the current Chinese reform priorities. A strong reform agenda endorsed by China will strengthen the G-20 and align with China's 2014 role as APEC chair.

A model of increasing infrastructure investment and commitment to structural reform can also form the basis of a future sustainable development agenda, with leadership from the G-20 following the close of the UN Millennium Development Goals in 2015.

### *Climate Change*

The G-20 will also be challenged to provide strategic guidance on the climate change agenda. As long as the current international regime is working without a global agreement, it will not meet the targets necessary to limit climate change to only 2 degrees Celsius. With all of the world's major emitters belonging to the G-20, its members can increase their unilateral efforts on climate change and make a significant contribution to "concerted unilateral mitigation." Any such efforts will make every country's mitigation programs less costly and establish leadership through concerted unilateralism on this critical issue (see chapter 11).

### *Leadership, Focus, and Outreach*

Australia's presidency can establish focus and give the G-20 the momentum it needs. Invigorating interactions among G-20 leaders is necessary to assure the global community that these countries are taking responsibility for the world economy and for a stable global financial system.

With the hindsight of five years, it is clear that part of what was lacking before the global financial crisis was that no one was minding the store. There was no effective responsibility for public outcomes in the global economy, because no one country or institution took the initiative. In so far as there was a group in charge, it was the G-7/G-8 leaders, who had been meeting since

1975 as a like-minded group of leaders from industrial economies, all Western except for Japan.

The G-20 brought into the global forum five more Asian economies in addition to Japan: Australia, China, India, Indonesia, and Korea; Saudi Arabia, from the Arab world; Turkey, straddling the East and West; and three Latin American countries: Argentina, Brazil, and Mexico. These, along with South Africa, delivered regional, cultural, and institutional diversity to the high table. Despite its intrinsic limitations, this was a major step forward from the G-7/G-8. But what was less clear in 2008 than it is now is that it ushered in a new style and a new discourse in summitry. Cultural and institutional diversity means that there will be differences of view across a broader range than in a like-minded group of largely Western countries. Agreement may be more difficult, debates more intense, and disagreements more open. In global negotiations it is more important to talk to those with whom reaching agreement is difficult than to those who already agree.

These complexities elevate the importance of having a focused agenda. A corollary is that the G-20 leaders must concentrate on strategic leadership. The proper division of labor is for the finance ministers and central bankers' meetings to deal with the technical detail and for the leaders' meetings to provide strategic guidance on urgent global problems.

Progress has been made on focus in the agenda, which will be key to the centrality and effectiveness of the G-20 going forward. Progress has also been made on outreach, at least in the sense of engaging stakeholder groups across the G-20 community such as business, labor, civil society, youth, and think tanks. Less progress has been made in institutionalizing outreach to countries and organizations beyond the G-20 community. Australia and Turkey, in their respective regions, have particular incentives to change that.

By far the biggest challenge for each G-20 host is the total engagement that must go into providing leadership of the global economy through and beyond the host year. This has to be achieved in a global context that has become politically much more difficult. It would be a great pity if the renewed political cleavages derailed the modest but real progress that has been made on international economic consultation and cooperation. The G-20 should be preserved and strengthened despite the storm waves of politics that hopefully will give way to a greater recognition of common interests and challenges.