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One of the themes I picked up from the discussion thus far is the disquiet that the G20 structure is not working—mainly because the growth of the global economy has moved ahead of politics and our management structures. Whereas we used to live in a world run by sectors until the third quarter of twentieth century, now it is run in "real time" brought about by ICT and globalization. New solutions are going to require global actions in diverse domains, such as climate change, weapons proliferation, and trade, just to name a few. In broad terms, the world has changed dramatically and we have to develop a more representative world structure for it to better work.

One of the most influential developments in the global economy is the equilibration of productivity across the world, which is reestablishing the nexus between population and GDP. Before the Industrial Revolution, countries with the largest populations also were the largest by way of GDP. This link was broken by the Industrial Revolution, which enabled a spectacular productivity takeoff in the core countries. Today, new industries and technology jumping the old legacies of the twentieth century allow India, China, and the like to reestablish this lost link. The Chinese economy will probably be as large as the US economy in the foreseeable future. A comparison with Japan brings this point home: before its collapse around 1990, Japan's per capita income was around 90 percent of that of the United States. Before its industrial miracle took off around 1955, it had been merely 20 percent. This is exactly where China is today. It is conceivable for Chinese per capita income to reach 40–50 percent, if not 70–80 percent, of US levels. Given

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that its population is four times the size of that of the United States, it is easy to do the math. The point here is that the "Vasco de Gama epoch" of European influence in Asia is over—the world has irreversibly changed. We hear a lot of rankling about why this change is happening. All I can say is an old adage: "We are being mugged by reality."

In the following discussion, I want to focus on two crucial discontinuities that I regard as missed opportunities: the end of the Cold War and the financial crisis.

In the first respect, the end of the Cold War gave us a chance to remake the world in a more representative way, but we failed to do that. We took some promising steps by incorporating Poland, Hungary, and others into NATO, and more into the European Union. We also tried to bring Russia into some kind of partnership with the Atlantic community. However, in the 1990s, the Asian financial crisis and the IMF's reactions to it set the stage for a new era of mercantilism in the region. The reaction by Chinese authorities to build foreign reserves was understandable enough.

Little changed in four presidential terms: two by Bill Clinton and two by George W. Bush. Something similar is happening with the Obama administration. The intellectual concept of inclusion has all but vanished. We still want to run the world from the Atlantic and at the same time complain that the Chinese are building foreign exchange reserves instead of developing their domestic economy. We have to recognize that China sees itself as a force of nature with its population amounting to a quarter of the world's total; not willing to allow itself to be marginalized and pushed around. They want materially to be in the game. The United States is the remaining ideological state in the world, propagating its supposedly universal values, both by spreading democracy and in other ways. To this the Chinese answer is that we do not wish to export ideology or extend ourselves geographically, but you have to deal with what we are—the largest society and economy in the world until 1800, now returning to our historical position. We could recognize this, just as Roosevelt acted in proscribing colonialism, when signing the Atlantic Charter with Churchill.

Underlying Chinese attitudes are influenced by the US attitudes toward China. The United States, with its quasi-containment policy, is following the path of Britain and France in their relations with Germany at the end of the nineteenth century. As Henry Kissinger put the provocative question in his book, "was it German capabilities or German behavior that brought Britain to its position"—of forming an alliance with France and Russia? The clear answer was capabilities, not behavior. Similarly, today it is Chinese capabilities that present a strategic affront to the United States, not Chinese behavior. Is the United States prepared to accept a communal/collegial structure of shared power in Asia? If so, this would be inconsistent with the supply of weapons to Taiwan. Is the United States seeking to encourage military action or is it simply trying to assuage Taiwan?

In sum, we had the opportunity to build a representative world structure at the end of the Cold War but we did not do so. In an emergency we brought together the G20 to replace the G7, but this has not represented a strategic sea change. But change will come, even if it is going to be uncomfortable and nasty to some. Illustratively, as Professor Obstfeld pointed out in his chapter, IMF facilities are not being taken up in East Asia.

Which brings me back to China. It is suboptimal for the Chinese to invest their reserves in the poor instruments it currently invests. They have better use for their funds, as Professor Goodhart noted earlier. Their capital outfits are not efficient. In the end the Chinese will change their behavior when it is in their national interest. Jaw boning by the IMF or the United States will not carry the day. China is held together by money and coercion, not by ideology. If the money stops rising or slows, it will fall back to nationalism. It will also realize that it can't forever maintain high levels of employment with savings channelled to capital intensive industries. The story of modern China is one of urbanization, one that will have to accommodate a labor-intensive service sector. It will have to increase consumption to GDP vis à vis investment. Some of this will mean "beating up" the Stated Owned Enterprises, the leaders of which have been very strong politically, now embedded in the State Council structure (many of whom are replacing old cadres). If the goal is to promote economic efficiency, earnings by SOEs should not be retained, but rather remitted to the national budget, just as they are in developed countries. However, Chinese SOEs exercise a lot of muscle sheltering themselves from contributions to the public account.

It is important to point out that new commitments to a modified social security system, with some elements of universality in health provision, have already been made. These are attempts to reduce the propensity to save and to lift consumption. This will alter the current account and the investible surplus abroad. These influences amount to a sea change in Chinese economic policy. The current Five-Year Plan underwrites a shift toward consumption. But this will take time.

Turning to the financial crisis, I am convinced that the impact of East Asian savings flooding the West had a material impact on the growth of financial intermediation, which was required to absorb ever more capital. So it was largely the global environment (the infamous saving glut) that was at the root of the crisis. Of course, regulation, or lack of it, contributed. You are better placed to know the solutions to the latter. Let me just say a couple of things about Australia.

While treasurer, I made banks exceptionally free of regulation. However, as a counterpart of that I also put in place a rather strict supervisory structure, and I was very picky about the quality of capital going to that structure. I also would not allow them to amalgamate—to avoid them doing silly things in rapidly growing themselves. The disciplined structure has remained and has served Australia well.

As a final remark, we are in for a period of low growth in the industrialized world. We are not able to say much about US policy until the next presidential election. In Europe, the Germans will eventually have to lean one way or another.

It seems to me that ultimately there are two models for Europe: the center perpetually supporting the periphery with transfer payments and guarantees, or another with exchange rates more suitable to peripheral states. The latter implies a consolidated band of central states—but this would also imply a very much changed euro structure.