

# Global Economy and Development

**A**s the world looks to China and other emerging powers to act as the engine for global recovery from a financial crisis that emanated from the United States and Europe, the established economic and financial order is being turned on its head. With America's 44th president taking office at a moment of consequential global challenges that even the most powerful nations cannot resolve on their own, there is a clear need for leadership. But with U.S. financial turmoil reverberating against the backdrop of a profound global shift in economic power, America's capacity and will to provide that leadership are less clear.

It is across this complex horizon that Global Economy and Development, under the leadership of Lael Brainard, pursues innovative research and policy solutions to help both U.S. and global leaders adapt to the shifting landscape of an increasingly intertwined global economy. Restoring confidence in international capital markets and ensuring that the global economy's benefits are broadly and widely shared will defy easy solutions, but are vital to the prosperity and stability of this new world.

"In today's environment, one of our core strengths at Global is having the combination of analytical insights and policy experience to turn headlines into actionable solutions to help navigate a new global economic order," said Brainard, who directs Global and holds the Bernard L. Schwartz Chair in International Economics.

## **Strengthening America Economic Leadership for a Resilient Global Economy**

Against this new global economic backdrop and the political realities of a new U.S. presidential administration, restoring American economic leadership has become the most critical policy challenge. With the generous support of Bernard L. Schwartz, Brainard leads Brookings-wide research efforts on strengthening U.S. competitiveness. In testimony before Congress and in briefings to high-level policy-makers, Brainard emphasized the need to first start at home—strengthening the competitiveness of American workers in today's super-charged global economy through new investments in infrastructure, green energy, education and training, and innovation, as well as creating a "new economy" safety net combining insurance with flexible training opportunities.

Finding solutions to the climate change crisis and weaning the world off a centuries-old dependence on carbon-based sources of energy will require a paradigm shift in how capital and technology



New Senior Fellow Eswar Prasad (left) and Lael Brainard, who directs the Global program and also holds the Bernard L. Schwartz Chair in International Economics, on a panel discussing a blueprint for reforming India's financial system.

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Mauricio Cárdenas, director of the Latin America Initiative (left), confers with *Foreign Policy* magazine's Moises Naim during a conversation on Colombia with President Alvaro Uribe.

SHARON FARMER

### Accommodating Rising Powers

Brookings Global experts continued to examine emerging economies in detail this year and to provide insights and analysis into the countries and regions that are revolutionizing the contours of the global economy, particularly as the financial crisis touches countries across the globe.

While China's emergence as an economic powerhouse has generated many benefits to the world, it has also created concerns among other major countries when it comes to the environment and climate change, currency issues, and trade. Senior Fellow Wing Thye Woo, the New Century Chair in International Trade and Economics, hosted the inaugural China Update conference focusing on China's integration into the world economy with David McCormick, undersecretary of international affairs at the U.S. Department of Treasury.

The Indian economy has fueled growth rates of more than 8 percent in recent years, making it one of the most successful emerging economies in the world. In preparation for his first official visit to India in October 2007, Global hosted U.S. Treasury Secretary Henry Paulson for a private briefing on India. Barry Bosworth, the Robert V. Roosa Chair in International Economics, continued the tradition of excellence with the India Policy Forum, convening the fourth conference in New Delhi, and issuing new research on such diverse economic issues as power reform, higher education, and the political economy.

Brazil's economic future is again attracting avid interest from investors, academics, and policy-makers. In April, Global Political Economy Fellow Leonardo Martinez-Diaz and Brainard

brought together academics and policy-makers from Brazil and the United States for a conference to explore some of Brazil's key economic policy challenges and opportunities.

The Wolfensohn Center for Development continued to focus on the more than 100 million young people between the ages of 15 and 29 in the Middle East—the largest proportion of youth in the region's history—and the opportunities that could be leveraged by comprehensive and robust economic policies to engage this youth bulge. Under the joint banner of the Wolfensohn Center for Development and the Dubai School of Government, with lead Fellows Navtej Dhillon and Tarik Yousef, the Middle East Youth Initiative launched groundbreaking work and promoted policy solutions to engage youth in meaningful education and employment opportunities.

### Building a Road out of Poverty

In 2008, Global established the Africa Growth Initiative. With a grant of \$5.8 million over three years by the Bill & Melinda Gates Foundation, the initiative will become the premier center in Washington for sustained research on Africa's economy. The research agenda will focus on attaining sustainable economic development and eventual prosperity in Africa in partnership with institutions in the region. Previous research by Dr. Ngozi Okonjo-Iweala, a Global nonresident senior fellow now managing director at the World Bank, helped inform the framework for the new initiative.

The initiative expands on Global's work in the global development arena, which in the past year included a number of high-

flow through the global economy. Global Nonresident Senior Fellows Warwick McKibbin and Peter Wilcoxon pioneered an innovative permit trading system approach to climate change policy that was instrumental in the Australian government's decision to implement a far-reaching cap-and-trade regime for carbon permits. Adele Morris, formerly a senior economist with the Joint Economic Committee, joined Brookings to launch a new Climate and Energy Economics Initiative with McKibbin and Wilcoxon that will help inform the coming congressional debate over climate policy with rigorous economic modeling capabilities.

In June, Global hosted more than 70 stakeholders for a Climate Change, Trade, and Competitiveness conference, led by Brainard. The conference brought together leading experts to explore the ways in which climate change policies might interact with the trading system and how policy-makers might address the challenges.

Meanwhile, Journalist-in-Residence Paul Blustein offered sharp insights and analysis on the roller coaster efforts of the World Trade Organization to conclude a Doha Development Round.

Global's deep bench of

experts on multilateral institutional governance led to a flurry of media attention during the past year, as global governance structures—from the World Bank to the G8—came under review. Johannes Linn, executive director of the Wolfensohn Center for Development, and Colin Bradford, nonresident senior fellow, continued their push for a more legitimate and effective G-20 structure at heads of state level. Domenico Lombardi, Ralph Bryant, Leonardo Martinez-Diaz, and Lex Rieffel contributed important analysis and recommendations for reform of key multilateral economic institutions.

The ongoing turmoil in the financial markets brought international financial flows to the forefront, with sovereign wealth funds emerging out of the shadows as a potent new force within global capital markets. Global hosted a series of forums with key institutions to discuss the issues related to transparency and accountability of the funds as well as the promise and pitfalls of involvement in financial rescues. Global also welcomed a new senior fellow, Eswar Prasad, who brings deep expertise on financial globalization in emerging economies such as India and China.



Former World Bank President and Brookings Trustee James D. Wolfensohn (center) listens to global perspectives on the U.S. financial crisis with Senior Fellows Johannes Linn (right) and Homi Kharas.

RALPH ALSWANG

level conferences and consultations. In the spring, Visiting Fellow William Easterly, a renowned economist specializing in global development, and Jessica Cohen, development economics research fellow, hosted a conference at Brookings focused on what development strategies have actually worked.

The Wolfensohn Center for Development deepened its research agenda on aid effectiveness, led by Homi Kharas, who is putting the spotlight on the challenges associated with vol-

atility in aid flows as well as the emergence of a new set of donors ranging from China and Russia to new private-sector actors. And Jacques van der Gaag and Sara Hommel expanded the work of the Wolfensohn Center's early childhood development project, hosting a series of high-level conferences.

In its fifth year, thanks to the ongoing support of Trustee Richard C. Blum, the Brookings Blum Roundtable on Global Poverty focused its agenda on climate change and development, follow-

ing the previous year's focus on "Global Development 2.0"—the new era of global philanthropy. Held in Aspen, the roundtable featured pre-eminent leaders including Nobel laureates Al Gore and Dr. Steven Chu and focused on the critical intertwined crises of climate change and global poverty.

The Global Health Initiative issued a series of new research papers on global health financing, while Cohen questioned the conventional wisdom on malaria prevention policies through innovative randomized trials. She also co-founded an NGO in East Africa to evaluate cost-sharing policies versus distributing malarial bed nets for free.

The next U.S. administration will have an opportunity to refashion the image America presents to the world, and foreign assistance to poor countries remains a critical instrument in

shaping U.S. influence. While more than 40 years of foreign assistance have shown some successes, U.S. programs remain dispersed and incoherent. With that in mind, Brainard and Noam Unger continued to lead Global's U.S. foreign aid reform project. With numerous appearances on Capitol Hill, Brainard called for a national strategy that elevates the stature of development alongside defense and diplomacy.

U.S. volunteers serving abroad represent another way to help improve the lives of the world's poorest citizens. The introduction of legislation by Sens. Russ Feingold and Norm Coleman inspired by Global's Initiative on International Volunteering and Service, led by Director David Caprara, was a major step in building a national consensus that volunteer service is a key instrument of public diplomacy. ■

## BROOKINGS EXPERTS ON COMPETITIVENESS

With emerging economies and existing powers jostling for economic dominance, America must develop a sustained national agenda to remain vibrant. Brookings integrates the global debate with what is occurring at home and in the states and localities that drive our economy. This "all-Brookings" research on competitiveness delves into such critical issues as trade, worker adjustment programs, education policy, infrastructure, and human capital development.

The Global Economy and Development Pro-

gram is undertaking a variety of initiatives on strengthening U.S. competitiveness. In testimony to the Senate Finance Committee, Lael Brainard discussed America's response to globalization through the lens of trade policies and recommended changes in the Trade Enforcement Act of 2007 to help

America compete more fairly in the growing global marketplace.

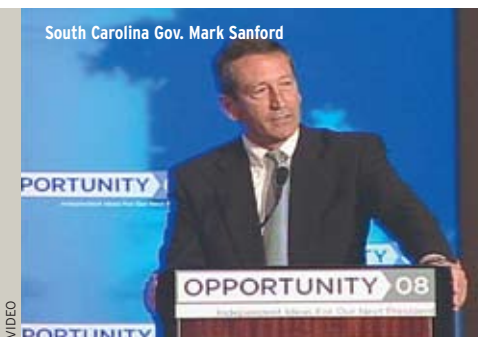
Brookings hosted the third Bernard L. Schwartz Forum on Competitiveness in fall 2007 to highlight America's failing infrastructure. Former Iowa Gov. Thomas Vilsack



Bernard L. Schwartz

opened the discussion on the constraints in sufficient investment of bridges, roads, airports, ports, and broadband systems—and raised the question: Can we afford not to invest more?

Focusing on broader economic growth, The Hamilton Project tapped a wide range of experts to generate innovative, cutting-edge, and evidence-based policy ideas to ensure that American workers and firms remain competitive in the new global economy. In July 2008, for instance, the project proposed a national infrastructure strategy that calls for more efficient investments to expand access to the nation's physical and telecommunications infrastructure.



VIDEO

U.S. competitiveness depends on the success of its cities like Houston, Charleston, Denver, and Philadelphia, say Bruce Katz and others from the Metropolitan Policy Program. Having launched a Blueprint for National Prosperity this year, the program has outlined bold new federal policies in such areas of innovation, human capital, and transportation that draw on the economic potential of our metropolitan areas to leverage national economic growth. ■