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CAN THE G-20 FIX THE FINANCIAL CRISIS?

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PROCEEDINGS

MR. TALBOTT: I'm Strobe Talbott and it's my pleasure to welcome all of you here to a very important event. Even by the standards of these extraordinarily busy times, I think it's safe to say that this is an especially important high stakes summit, and I would even say high suspense week.

The London Summit or the so called G-20 Summit, which starts on Thursday, is going to be a double test. It is going to be a test of the international community's willingness and ability to step up to the challenge of ending the global recession and beginning a global recovery, and doing so in an internationally coordinated fashion.

It's also going to be a big test for President Obama and his ability to reassert America's leadership role in this whole process, and that's going to mean harnessing the considerable popularity that he enjoys around the world, but at the same time, overcoming skepticism about some of his policy prescriptions. And these two challenges, the one for the world community as a whole and for the American President in particular are closely linked. We have an exceptionally well qualified panel to help us assess the chances for success, and perhaps even to define what success might mean for the G-20. Special thanks to Michael Froman. He is, as I think all of you know, Deputy Assistant to the

President, Deputy National Security Advisor for International Economic Affairs.

He is the White House liaison, not only to the G-20, but also to the G-7/G-8. And I would stress, he is very much a friend of Brookings institutionally and a personal friend of quite a number of us here. In fact, he is such a good friend that he has ducked out of his office on a very busy day when he's trying to get ready for a trip and pack and be on an airplane tonight to spend a half an hour with us, and he will have to leave after half an hour. He assures me that you should not take that as a walk-out, any objection to what he hears, although if he has a grouchy look on his face and he shakes his fist as he leaves, then I guess we'll have to reassess that, and he and I will try to smooth things over later.

This is a particularly important event and day for Brookings in another regard, as well, and that is, this is Kemal Derviş' first day as our colleague here at Brookings. He, until recently, as I think everyone in the room knows, was the Administrator of the United Nations Development Program. He is, as of today, a Vice President of the Institution and the Director responsible for our program on Global Economy and Development. In that capacity, he succeeds Lael Brainard, who was nominated by President Obama to be the Undersecretary of Treasury for International Affairs.

Kemal brings to Brookings many distinctions and accomplishments, the extraordinary work that he did at the UN, before that at the World Bank, in his native Turkey, and also his scholarship and his experience in a practical way in the realm of global governance.

Global governance is a phrase, a concept, and an enterprise that is under stress right now. It's a phrase, a concept, and an enterprise that is going to be put on trial in London. And it is an enterprise that must not only survive the tests ahead, but must continue and rise to higher levels if we're going to get out of the multiple messes that we are in as an international community.

The G-20, for all of its deficiencies, including in its name and the imprecision of that number that comes after the hyphen, may not be the last best hope for global governance, but it is definitely the next best hope, and the stakes are very high. Like Mike Froman, Kemal is very much part of the solution, like Mike, he is a G-20 sherpa, and he, too, tonight will be flying to London to prepare the way for Ban Ki-Moon and advise the Secretary General of the UN at the London Summit.

Just a few words about the other Brookings scholars on the panel. Carlos Pascual, Vice President and Director of our Foreign Policy Program, also is the moving force behind our Managing Global Instability project which deals with the substance of global challenges, as well as

some of the process and institution questions, such as the G process and what numbers should come after the hyphens and all of the variable geometry that goes into global governance.

Eswar Prasad is a Senior Fellow focusing on global economics and emerging markets. He has been tracking G-20 stimulus plans across the world, and I recommend that you take a look at our web site to see this interactive feature that he's put together on that subject.

Johannes Linn is the Executive Director of the Wolfensohn Center for Development. Along with his colleague here at Brookings, Colin Bradford, Johannes was among the earliest advocates of a G-20 at the leader's level. So it must be particularly gratifying for him to see that concept now coming into reality.

Finally, Bill Antholis, the Managing Director of Brookings, will serve as the moderator. Bill helped the White House coordinate two G-8's back in the 1990's. He's written on several issues that are on the agenda today, including climate change, as well as having done some very important work on an over arching issue of critical importance, which is the need to be much more aggressive and successful in constituency building at home for international agreements that are necessary to protect free trade, grapple effectively with climate change, and press ahead with the struggle against global poverty.

All those are urgent priorities that must not be deferred because of the financial crisis and that I'm sure is a subject that will come up during the discussion. So, Bill, I will now turn the proceedings over to you.

MR. ANTHOLIS: Thanks, Strobe, and thank you all for coming. It's a pleasure to be here with all of you and with this terrific panel, and obviously, with our newest colleague, Kemal Derviş, but also with an old colleague and friend, Mike Froman. Mike was part of an Opportunity 08 series that we had here at Brookings in the run-up to the presidential elections on our Bipartisan Advisory Council, and it's terrific for the first time to see you back here since then, Mike, and in your new U.S. government garb.

So the quick question to you is, what can we expect of this big meeting? We're still in the battle phase of addressing the global financial and economic crisis. There's been a lot of talk about stimulus in the United States, it's happened in China, as Eswar has tracked, it hasn't happened in some other places, but there are also regulatory issues and other issues on the agenda. What should we be looking to see come out of this?

MR. FROMAN: First of all, thank you, and it's good to be here with so many friends like Strobe, and Bill, and Kemal, and Pascual

and the others, Carlos and the others. First, let me say I don't think I need to say to this audience that we're in the midst of one of the worst financial and economic crises in several generations. It's a global crisis and it requires a global solution, and that really is the purpose of this G-20 meeting this week.

The agenda is two-fold, managing this crisis and preventing future crises like this from emerging again, and that means restoring growth, on one hand, and embarking on a whole series of regulatory and institutional reform efforts on the other. Restoring growth has at least four components; one is putting in place significant stimulus, fiscal and monetary, as you mentioned; two is, very importantly, fixing the financial systems of each of our countries and getting lending going to support the economy; three, avoiding protectionism; and fourth, taking steps to make sure that the international financial institutions have the resources and the tools they need to minimize the spread of the crisis to emerging markets and developing countries or to mitigate the impact of the crisis on those countries. I think you'll find that the agenda of the G-20 is robust in all of those areas.

The second track is the regulatory and institutional reform track. In there, there's a long list of work programs that came out of the Washington Summit last November, and further work that's been done in

any number of areas. And there will be work on expanding the scope of regulation, to take into account all systemically important institutions, markets, and products; there will be efforts to encourage offshore financial centers to abide by internationally recognized norms and rules; there will be progress made on capital and how capital is thought of for financial institutions, making sure the capital requirements prevent crises from developing, but also don't exacerbate the crises when they do develop; and there will be a series of institutional reforms from expanding the financial services forum, to reforming the international financial institutions, to creating methods for regulators and supervisors to cooperate with each other to deal with the global financial institutions that engage in cross-border activity.

I think it's a robust agenda, there is broad consensus on the nature of the agenda, and I think it should be a very productive meeting.

MR. ANTHOLIS: Maybe with that, turn to Kemal. Kemal is going to be acting as Secretary General Ban Ki-Moon's sherpa in the process. Do you see the set of issues on the table in the same way, are you sensing progress and this is another positive step in direction of the crisis, or does it feel like it's still out there?

MR. DERVIŞ: Well, it's still very challenging, but I do fully agree with Mike's outline of the agenda. I do believe there's still – a lot of

work has always happened in these meetings, as you well know, in the last 48 hours, and I think we'll be very busy in the next 48 hours. I do want to make perhaps two points in addition to Mike's agenda, because, you know, he presented it perfectly in terms of what is actually going to happen, but maybe two dimensions; one is a note of optimism, because at the end of today, on the supply side of the world economy, things actually should look good. Technology is advancing, the technological frontier is shifting outward, there's accelerated diffusion of knowledge, investment in many parts of the world, particularly in Asia, of course, is at historical highs, in systems that are quite deficient.

We've had the ex-Soviet Union investing a huge amount of income very inefficiently, but now, in a much more market-oriented setting, emerging markets are investing a lot of their resources. So it's a demand collapse that was generated by the financial sector. But the underlying fundamental supply side aspects of the world economy are strong. So what we have to do is to fix the demand side, fix the fiscal stimulus and fix the financial sector, and once that's done, once we can do that, I personally think growth in the world can resume and can be quite rapid and everybody can benefit, particularly the poorest.

The second point I want to make, it is very important that the fiscal and banking measures extend to the emerging markets. The

emerging markets individually, I'm not including China, China individually is systemically important, but individual countries in the emerging market world are not, but if you take them as a group now, they are close to one-third of world GDP. So allowing the crisis to spread into the emerging markets, to Latin America, to the Mediterranean, to parts of Asia, to Eastern Europe, having a huge demand collapse taking place there adding to the collapse we have in the rich countries will make things infinitely worse. So one of the big challenges, and that was the last point that Mike made, is to make sure that the global policies are truly global, that the recovery program is truly global and extends to the emerging markets and to developing countries.

Perhaps last, we cannot forget the poorest. They may not be systemically important, but the people who are suffering the most as always are the poorest and the most vulnerable. So we have to find space in London and space in the global recovery program to extend help to the 1 billion, 1-1/2 billion people for whom it's not just a question of lowering consumption or lowering the living standards a little bit, but it's a question of not being able to send their kids to school, not having sufficient nutrition which will have effects over decades, and we must not forget that last aspect of the crisis.

MR. ANTHOLIS: Where can we expect that surge of demand and growth in emerging markets to come from? China has stepped forward with a stimulus plan that I think Eswar ranks as moderate or modest. Other developing countries have been more limited in that way after years of us preaching to them for austerity. And the rest of the industrial world other than the United States isn't stepping forward with a stimulus. How does that play out either at this meeting or in the future over the next several months?

MR. DERVIŞ: That's why the resources have to be made available to the development banks and to the IMF are extremely important. The U.S. has called, Mike may want to elaborate on it, on a very strong IMF response, very strong financing from the IMF, liquidity to the emerging markets. Liquidity has been provided to the U.S. financial system, in Europe, in Japan, but the emerging markets don't have the same capacity to do that and the IMF has to help them do that. We cannot let the banks in the emerging markets collapse or the corporate sector, and that's where the IMF's role and the liquidity that has to be given, the resources that have to be given to the IMF, are very important.

One more point. Of course, the governance of the IMF, we'll maybe come back to that, but we cannot have a G-20 with China, India

and Brazil at the table and others and think that the IMF can be governed in the old ways.

MR. ANTHOLIS: I'll turn to Mike on both those points. Are you sensing from some other colleagues that there is that support for the IMF as well as other multilateral and individual aid? We've seen recently that OECD is going to come out with a report saying that while we're doing a little bit better than last year, we're still not at the Gleneagles goals. You've got a G-7 process that you're a part of as well as the G-20 process where these issues are on the table including the reform of governance that marries up to these. What do you see the prospects of these various strands coming together in the next set of conversations?

MR. FROMAN: I think Kemal's point is absolutely right on, which is that key to the overall recovery of demand and key to preventing this crisis from going through another cycle or downward cycle is making sure that as capital is withdrawn from emerging markets and developing countries that the IMF and the World Bank and the other MDBs are there to try and provide that capital, and this is a very different sort of crisis than the crises that the IMF and the MDBs have dealt with in the past. This is largely with some exceptions a private sector crisis in these countries with corporations who will have difficulty rolling over their foreign exchange liabilities, with trade finance having collapse, and as Kemal said, with the

need for bank recapitalization in these countries, but the countries themselves don't necessarily have the wherewithal to provide. So the IMF, the World Bank, the other MDBs need both the resources, but also need appropriate approaches and appropriate facilities to deal with the specific elements of this crisis and that's very much on the agenda there.

In terms of the reform, I think it goes part and parcel with the expansion of their role in this crisis. We will be going to London very much in support of comprehensive reform of governance of the international financial institutions and giving the emerging markets and developing countries -- or having the institutions reflect the realities of the economy now. So I would expect in the near term for those governance issues to be addressed as well.

MR. ANTHOLIS: Protectionism has started coming up as a phrase certainly with the focus on trade protectionism, but also we're starting to hear financial protectionism. Give a sense of how that's playing out in the conversations and how you think it will play out in the meeting.

MR. FROMAN: I think one of the significant accomplishments of the November meeting was this pledge to avoid protectionism and avoid erecting new barriers to trade and investment. No country has been perfect, but on the whole I think the assessment by the WTO, the World Bank and others is that the steps that have been

taken since then have not had a significant deleterious impact on trade and investment. From the President's perspective or from the U.S. perspective, we've had a few issues ourselves and the President has said "buy America" has to be implemented in a way that's consistent with international trade obligations. He has said that this is not a time to take actions that would further reduce trade when trade has fallen off so much, and that we will be taking actions to rectify barriers as they arise, and I think that's generally the approach of the other countries. Again everybody is a bit of a sinner, but this is a time for everyone to come back and to try a bit of a revival meeting among sinners, and I think there will be a strong message coming out of there.

The second point is actually a bit more difficult because there is the risk not just of trade and investment protectionism but of economic nationalism or financial nationalism more generally. Certainly as each country takes steps to bail out its own banks or its own auto sectors or other sectors there will be a tendency to ensure that that money is spent in ways that benefit the national economy and I think all of us will be coming together to at least exhort each other to try and do this in a way that minimizes negative and adverse impacts on others. But it's becoming aware of the issue, having institutions monitor what each country is doing

and be able to use that monitoring to come back to hold the nations accountable.

MR. ANTHOLIS: Kemal, how are you and folks at the U.N. and particularly the big emerging and developing countries seeing protectionism? Is it a fear just about trade or is it extending to these other areas, and do you expect that to infect other parts of the conversation?

MR. DERVIŞ: I think it is a very important issue. Of course, many of the emerging markets, one of the driving forces of growth has been exports. One of the worrisome parts of this crisis is that any individual country cannot export itself out of the crisis. When I was in the Turkish government, it was an emerging market crisis, one of the things we could do is export a lot more into the world economic. Now unfortunately because the crisis is so global now, exporting yourself out of it by yourself is not an option. So we have to have this global revival of demand and everybody participating in it.

On the financial sector, I do believe there are lots of worries about protectionism and measures that really are not a level playing field in the financial sector. We may not have time in the London meeting to go into the details of that but I think it's something for the agenda in the future which is very, very important. On the financial sector which is so important let me just add one other point. That is that when you look at

financial and banking sector crises in history around the world, sometimes the cost of recapitalization goes all the way to 40 percent of GDP. Let's say in a typical crisis, somewhere between 20 and 40 percent of GDP. It's a huge amount of money, and this is why it's so difficult because these resources are absolutely necessary but politically of course injecting so much money, and I'm not just talking about the U.S. but across the world into the financial sector is a very difficult thing to do. I do believe in the U.S. there is one element which makes it somewhat easier, that there is a lot of private money available and I do believe the President's plan and the Treasury's plan tries to tap that private money to complement the public money and I think that that will make it more feasible rather than just trillions of public money. On the other hand, the way you combine those two and the conditions make it politically of course very tricky.

MR. ANTHOLIS: In the last few minutes that we have here, Mike, and while Kemal is here as well for this part of the conversation, one of the things that's fascinating about these meetings is there's a whole lot of preparation, Sherpas, this, that and the other, and then it's essentially a bunch of leaders getting together. So sort of at a personal level can you give us some insight into how President Obama is thinking about this meeting, what his own goals vis-à-vis others leaders are, and the same for Secretary General Ban Ki-moon who has been on the stage for about a

year or about 2 years now, just how are they personally steering themselves through this course?

MR. FROMAN: I think for President Obama this is an opportunity to show that the U.S. is fully engaged with the rest of the world, and it's also an opportunity for him to show his view of U.S. leadership, which is he'll be going to London, he'll be going to London in part to listen and to understand where other countries are coming from, but he's also going to London to lead. And he goes to London well positioned to lead by example, because if you go down the agenda that we've been talking about this morning whether it's fiscal stimulus, the U.S. economic recovery plan is a very robust example of fiscal stimulus, fixing the financial sector, the various plans that the Treasury has laid out over the last couple of months including just last week, are a critical part of dealing with that problem. On the regulatory reform side, the testimony and speech that Secretary Geithner gave last week beginning to lay out our approach to systemic risk regulation is a key part of this regulatory agenda. So he will be able to go to London and say here is our global agenda, we each need to take steps in the following areas, and the U.S. has begun to do so and we look forward to talking with the other countries and learning about what their perspective is on this as well.

MR. ANTHOLIS: Kemal?

MR. DERVIŞ: For the Secretary General I think one thing that's very, very important is that he goes in a sense also representing those who are not there. I think the G-20 and however many countries we'll finally have there, 22 or 23, is a great step forward because you really have the big actors, you really have to work together. It's unwieldy. It's a little too large. But having meetings without Brazil, without China, without India, that really doesn't make much sense that I can see. But there are all the others, and at the end of the day the whole world community is terribly affected by this crisis. Africa is affected. The poorest countries are affected. And I think for the Secretary General, his priority is to represent also their views, their vulnerabilities, and to make sure that he plays the role of a bridge if you like between the systemically important countries and the smaller ones. Some of them are not poor, they are small rich countries not represented, but particularly the poorest countries so that they feel that their interests and their voice is heard. I think that is his key mission.

MR. ANTHOLIS: Thank you both so much. Kemal is going to stay and Michael is going to have to leave, but we really appreciate you taking the time to come over and spend a few minutes with us and give us a sense of what's going on.

MR. FROMAN: My pleasure. Thank you.

MR. ANTHOLIS: Thanks. Great to see you, Mike.

Turning to our other panelists, I'll start with Eswar. Eswar, in the report that the Global Economy Program just put out listing the big challenges out there for the G-20 meeting, your piece in it is entitled "Stimulate, Reform and Coordinate." So two questions to you. One, are we going to get any of them? And are we going to get any of them at this meeting; and two, if you can't always get what you want, will you sometimes get what you need out of this meeting, the Mick Jagger doctrine as it were?

MR. PRASAD: I would think one or even half of the three that he just mentioned. The problems are very difficult to disentangle those three aspects that I referred to in the note. And one can think about the dilemmas facing the world economy today as a set of very complex tensions that need to be resolved. And these tensions take a number of different forms with to me all the different issues that we've been talking about, and in itself in an interesting set of coalitions that have been formed around the G20.

So first let me talk a little bit about the substance and about the strategic aspects as we go into the G20. On the substantive side, if you take macroeconomic stimulus, for instance, as Kemal correctly said, right now there is a severe aggregate demand problem out there that

needs to be solved. But if you frame the issue as thinking about today's crisis versus tomorrow's crisis, we might essentially be creating problems, not just in terms of solving today's crisis, but in terms of tomorrow's crisis as well, if we don't take the right policies. But at some level this tension is going to be very difficult to resolve. So increasing fiscal stimulus today is going to mean a higher level of the U.S. fiscal deficit is going to be at a higher level of the U.S. public debt. And that is at some level inevitable if you need to get out of the mess we are in in the U.S. And the same holds true for many other industrialized as well as emerging markets as well. So having the stimulus right now and the concrete plan to think about bringing deficits and debt levels back in the medium term is one way to think about resolving this tension and trying to convince markets that again, in terms of trying to reduce the shock and pain, we don't create much more pain in the future. And if there is an expectation, there is going to be more pain in the future. It makes a short-term problem harder to solve as well.

If you think about financial sector reforms again, similar issues arise because ultimately it is clear we do need financial reforms, and a time of crisis is as good or better a time as any in order to put in place the processes that get this started. But on the other hand, when financial institutions are very weak, and we're just trying to get them back on their feet, trying to create new regulations might be very difficult,

especially trying to rethink the entire regulatory framework in the midst of a crisis. But I think the sort of approach that Geithner has taken is the right approach, trying to put the issue on the table and start trying to encompass many other institutions within the regulatory framework without delving in specifics right now.

On the international financial architecture again, clearly there are issues that need to be resolved. Right now financing for the IMF seems to be an essential priority, and I hope it will come through in the G20 even if nothing else does. But at the same time, governance reform is essential in order to get the IMF to be a more effective institution. And it's clear that right now, although the IMF has been forthcoming in terms of trying to redesign its lending programs, it's still seen as a toxic proposition, especially for emerging market politicians. So perhaps we need to be thinking creatively about other mechanisms, not just to the IMF, but one can actually provide the sort of thing that, in fact, Gordon Brown has been talking about, offer an insurance system whereby emerging markets don't feel the need as a consequence of this crisis to go out and run policies that allow them to accumulate even larger reserves and perhaps exacerbate the global macroeconomic imbalances whereby this crisis might end of laying the seeds for the next crisis. So in terms of resolving

these tensions, then the G20 will have a very interesting set of coalitions, I think, developing.

On the stimulus front, for instance, it's clear that the U.S., Japan, and a couple of emerging market countries, especially China and India, are in deed forming this coalition where they are urging the other countries, especially Europe, to stimulate a great deal more. And Europe is understandably concerned that if they let go of fiscal discipline right now, especially the more recalcitrant members of the European Union, could in fact be very difficult to reign in in the future. But I think that at this stage, given the weaknesses in the world economy, we do need much more stimulus.

And then if you look at regulatory reform, there's an even more interesting coalition because Europe is, of course, right up front in terms of arguing for much more encompassing regulation. And the U.S. has shown that it is willing to think much harder about regulatory structures. But there is a subtext about an international regulator, one that might have super international authority in order to make sure that regulatory frameworks across countries are managed in a sensible fashion. And here, I suspect, there is going to be resistance from the U.S., and more interestingly from emerging markets. Not that the emerging markets don't think it's necessary, but they are concerned that

given that they're at a very different level of financial development, have very different levels of regulatory capacity, they could end up having a super international regulator that is very intrusive. So they have a slightly different coalition forming.

And on the international financial architecture, the U.S., of course, has been very forthcoming. As Mike Froman just pointed out, not just in the letter of the law, but also in spirit, they have been quite forthcoming. And here Europe is proving to be something of a deal breaker because the emerging markets would like the IMF to be a more effective institution with more resources. But I think they are right to be holding out for more substantive governance reform. At a time when dramatic changes are being made practically overnight, it's just beyond me why significant governance reform at the IMF must wait until 2010 or 2011. So I think there, in fact, we could have the emerging markets really coming out to the fore on the world stage and effecting a change that I think will be beneficial for the world economy.

MR. ANTHOLIS: Maybe that's a perfect segue to Johannes. Johannes is someone who's been calling for a G20 leaders meeting for some time, and we've now got two within six months after 12 years of not having had one since the fall of 1997 or 1998 when we had the last one.

So it's here. Is it ready? On the one hand what we're hearing from Eswar is quite encouraging in that interesting coalitions are forming across the industrial emerging, developing divide. But there doesn't seem to be any greater consensus, and maybe the number 20 is part of the problem. There are so many countries in the mix. How should we think about this group in formation, and what would be an indicator that the group has established some momentum and some sort of staying power as a group?

MR. LINN: Well, first of all, let me say that, of course, the crisis is in a sense what brought it on, the G20. But as Strobe and you mentioned, it's been in the air already. Everybody who has looked at this carefully, including Kemal I think in his book -- what was it, four or five years ago? -- I think recognized that the G8 basically was an obsolete instrument. Together with other, of course, global institutions to provide leadership on key global issues, financial and economic, but also other issues. But it's environmental or, you know, the big issues of food security and energy security. So it was in the air and the crisis made it happen. Now is it the ideal forum with which to address the global issues? No, it's not the ideal forum. There are members in there, participants, who in some sense probably shouldn't be there, and there are some important countries missing. However, it's what we have, and it was the pragmatic

response, I think, of the U.S. administration in November to actually call the first G20 meeting. And now we have the second, and in deed, it's, I think, quite likely that a third will be called. Doesn't mean the G20 will be forever, definitely not. There are quite a lot of options for the G20 to be refined. For example, the EU, the Europeans could actually decide that they would be more effective as the Europeans if they had just maybe one or two chairs instead of the five chairs they will occupy, or maybe even seven if you count Netherlands and Spain who will also be invited. That's maybe a long shot, but certainly there could be more representation on a regular basis of other regional organizations as there will be this time to represent also countries that are not more broadly present and to sort of imperil the fact that the EU is there.

So there are a number of ways going forward to improve representation, to improve effectiveness; however, what I'm very happy to see is that for now anyway, it looks like the debate about who's in and who's out seems to have subsided at least temporarily. And I hope it will stay there until the crisis is resolved because the most important thing now is to focus on addressing the key issues that, of course, Michael and Kemal have mentioned already. So right now, let's -- the advice, the push, should be to focus on the issues, not focus on who's in and out. And this is what I think is happening.

Now in terms of what will come out of the G20 meeting in London, I think two things need to come out. First of all I think the areas that Michael mentioned obviously are the key areas. And I think there is a good chance that there'll be a commitment on the stimulus side, on the bank restructuring side, hopefully also a strong one on protectionism, and so on, and reform of global institutions as was mentioned. That's important, the commitment, but then, of course, pushing forward with implementation. And this is where, I think, there's been a bit of criticism after the first summit when the few days after the summit committed to not instituting protectionism. Then, of course, countries' leaders went home and whether it was the U.S. with "buy American" or the Russians with putting, slapping, some import duties on cars and so on, I mean that is, of course, sends all the wrong signals. So the key will be don't overreach in the commitments, but then implement. And I think this is where monitoring, of course, becomes important in making sure the IMF, the FSF and so are actually effectively and honestly and straightforwardly monitoring is going to be very important.

So those to me are the key deliverables. And I think we can measure success along those lines.

MR. ANTHOLIS: Let me stick with that last point because it's a really interesting one that I hadn't thought of. I mean the G7, G8

over the last two decades, people have always said "Oh, they issue these big communiqués and then go off and they come back." And now the G20 sort of faces the same challenge. There's no standing secretariat for a G7, G8. There's hardly one for a G20. How -- and now with potentially these two rival bodies or interchangeable variable geometry, oh, and there's an emerging -- I mean there's a major emitter's metering on climate change that's going to happen after the G8 meeting in the run-up to the -- how do you institutionalize all this if it's sort of a moveable feast with a changing set of characters?

MR. LINN: Okay, well, I think this is obviously -- this year's is really going to be interesting because you have these three or four very senior levels. You have the G20 now, which may well meet again. At the summit level you have the G8 and it's in, I think, July, is it? And that will be in a sense, could be, a retrogressive step. The fact that everybody's now talking about G20, and actually very few people are talking about G8, in my view is a sort of sign of the future. I think the G8 will continue most likely, but in some sense as the core and the apex of leadership, global leadership, I think it will recede and become more of a caucus actually for the G20 or whatever successor summit institution we see. So my sense is that it will work itself out. The main thing is not to let it interfere again with actually concerted action on the crisis front.

Now the preparation for Copenhagen, I think, is an interesting third leg if you wish, and I think again here the key will be focus on action, focus on the commitments that will be made and on action. And I don't see that being a conflict between the fora of preparing for this as long as -- and I think there's a chance that will be happening -- there comes a signal out of the G20 meeting in London that the 20 leaders actually support a strong Copenhagen meeting later this year. And that then this provides additional impetus, and then one can pick up again after the year's over in a what let's call it, you know, a fourth G20 meeting the following year and push the agenda forward of whatever's been agreed in Copenhagen. So I think this is developing.

Last point, you mentioned a secretariat. My personal view is that a secretariat for G20 is probably a good idea. Now it's important to keep it simple. It probably should be staffed with representatives from some of the key international institutions, but it should not be, have a permanent secretary in the sense that you appoint somebody who is permanently in charge of the secretariat. Actually the head of secretariat probably should rotate together with the presidency or the heading of the G20, and that way you ensure that the bureaucracy doesn't take over. And I think that's the kind of model that gives you good logistics and also

the sort of technical underpinning for the work. Good monitoring, as needed, but then keeps the political process in tact.

MR. ANTHOLIS: So Carlos, Johannes at one point and we all mentioned the crisis, the crisis, there's this economic crisis and there's a financial crisis. There are a lot of other crises in the world that are also sort of interjecting themselves into this set of meetings, either in the meetings themselves or on the margins, bilateral meetings that various heads of state are having with one another. Given -- help us understand what must be in the minds of these leaders as they're getting together, starting say with President Obama, but some of the others that he might be meeting with.

MR. PASCUAL: Yeah, well, one of the big issues that we face here is this tension between focus and vision. All right? Because Johannes talked about three different tracks, would there that there were only three? Because you've got the reality of climate change and all the issues that we are going to deal with there. We've got a whole series of issues on nuclear security and thinking ahead to the NPT Review Conference that's going to take place next year, but those negotiations have already started and are fundamentally on the table with what's happening with Iran, how we deal with Russia, and the new arms control agenda with Russia and how those play into the scenario. Plus, the huge

surge in demand for civilian nuclear power, so how you deal with those sets of questions on that side.

There are issues of transnational terrorism and how one effectively deals with those questions that fundamentally are transnational in nature, but require domestic action. There are the whole set of issues that we're facing on Afghanistan and Pakistan, which play into the transnational terrorism agenda, but are even broader than that.

We come back to the whole question of protectionism, I think, because that's an issue I hope we come back and have more discussion about. Because we've talked about the importance of taking a stance against protectionism, but none of us have really talked about yet what really does happen to resuscitate the Doha Round or actually do something that gives some credibility to the pledges that this group has been talking about. There are issues more broadly about transnational conflict and how we build the capacity to deal with conflict issues internationally.

And so all of these issues are out there, right? And these leaders are basically facing a set of questions, which on the economic crisis, point out the fact that when we get into issues economically, financially, that cross borders, it is extremely difficult to regulate and deal with those problems. And we have exactly the same kinds of symptoms

on each of those other issues as well. And so when we come back to these questions of do we deal with a G20 or a G8 or G13 or G15, the reason this question is important is not just because of the economic crisis, what we're basically trying to struggle with is what is the right grouping of countries that we have to bring together to create some form of a steering committee that can help us rationalize the way that we address this whole range of global transnational crises that we're facing today? Because we've got to recognize that if you create a group for one purpose, it's not just going to disappear and go away for something else. So how do you rationalize that across the board?

And then secondly, the other thing that's important to keep in mind with this, is not that we want this G whatever, G20 or smaller group - - and we can come back to the question of what's the right answer -- it's not that they are the ones that have the answers to every single problem, but we want, we need, some form of executive guidance and leadership to be able to give an impetus to how problems are resolved in individual institutions. How we take those issues to the IMF, for example, and deal with the governance questions there. How we take those issues to the UN Framework Convention on Climate Change and negotiate those issues. How we deal with these issues in the context of the Nuclear Nonproliferation Treaty and that review process, et cetera. You can't

expect this group to fix everything, but what they can do is, as leaders of the major countries, to begin to give guidance so that their representatives in these different negotiating fora can actually get some coherence across issues; and where the people who are dealing with financial issues aren't just in a stovepipe dealing with those questions, but have the benefit of the guidance of their leaders who are really looking across these questions.

MR. ANTHOLIS: So I want to follow up on that and then also bring it back to Kemal in thinking about this, not just a G20 meeting, but the President will also go on to meet with the EU and then will go from there to meet with Turkey, which both as a European country, a member of NATO, but also a critical emerging market, how do those three things tie together? We're moving -- this is the President's first trip to Europe, yet it's been subsumed in the conversation about the global crisis. Is Europe passé in this process? Should we be thinking about what Johannes referred to before as perhaps Europe consolidating its vote in the global setting and thinking more and more about Europe as a whole? How does President Obama think through that?

MR. PASCUAL: Well, it's -- I would say it's even more complicated than that because he's going to meet with President Hu Jintao as well at a bilateral meeting, which will be critically important in guiding the China relationship and particularly on questions related to

climate change and protectionism. They will be huge. I mean we can't forget that last year when we had a very short debate on the Lieberman-Warner bill here in the United States on a cap-and-trade system, the biggest issue that got focused on there was a cross-border carbon tax on China. All right. Let's take up a cap-and-trade system again. Let's go back to a discussion of a cross-border carbon tax on China, the biggest creditor to the United States. Not a good idea right now. And so that's an issue that the two of them are going to have to particularly look at.

MR. ANTHOLIS: And as a matter of global governance, what it potentially sets up is not just the U.S. succession to the climate agreement coming into effect, but a collision between that and the World Trade Organization, which would be two global governments colliding which we've never really seen before.

MR. PASCUAL: Absolutely. Then the other two pieces that you did mention here, tomorrow there is a meeting in the Netherlands, discussing Afghanistan and Pakistan and how that fits into a regional context. And then there's the NATO summit. And so there the big question is going to be how do we create an impetus to be able, for the international community, in a case where there's a UN mandate, NATO -- every country of NATO's involved, 40 countries overall are involved -- in support of a country, Afghanistan, that says it wants support for its

democracy and right now by all accounts are failing. All right. What do we do to turn that around? And so the context of the discussion with the Europeans is going to be not only in the context of these financial issues, is how does that discussion work in a way that the President of the United States is going to be able to get support on what needs to happen in Afghanistan and Pakistan? We've already seen signals that the request is not going to be for troops. The request is going to be for civilian capacity and assistance to be able to deal with that situation on the ground. Obviously, you know, no country right now is actually looking to put up additional financial resources for problems in places other than their own. That becomes --

MR. ANTHOLIS: Some of them aren't even putting up resources for problems in their own countries is part of the problem.

MR. PASCUAL: In their own -- right. So, then just to kind of continue this, I mean, there's also the Summit of the Americas, which is going to take place in April. There's the Major Economies Meeting that's going to take place at the end of the month. And so all of this is happening at the very same time, and so the challenge for this group of leaders -- and I think for President Obama is going to have to be how to give reassurance domestically to the United States that there is enough of a focus on these issues that we're taking action, how to give assurance to

the international community that we recognize that we are tied up with this broader international system, that we can't just do it alone, yet at the same time we've got very real crises in these other areas and how do we sustain progress in those areas? And how do we then reassure our friends and partners that we're going to work with them in a way that isn't going to be just U.S. oriented, and we're not going to simply slip into protectionist tendencies? That is a huge, huge challenge right now, and the complexity of the agenda, the range of issues that is out there, just makes it a lot harder to be able to actually manage this.

MR. ANTHOLIS: Well, Kemal, do you still feel optimistic?

MR. DERVIŞ: Always!

MR. ANTHOLIS: You've injected enough optimism at the beginning of this --

MR. DERVIŞ: Well, you know, we haven't been hit by a terrible disease. We haven't gone, thank God, through a world war. This is demand management, a financial sector issue. The dynamism in the world economy is still there. The skills are still there. So yes, fundamentally I remain optimistic. However, in listening to all the meetings, all the problems, they are intertwined. Some of them are clashing. I think one of the really interesting issues is this whole climate versus trade issue, WTO versus you know the UNFCC, and so on. So all

of this is very complicated and obviously there's no easy answer. But I do believe that we now have a U.S. administration that engages. The popularity of the President is tremendous around the world. So it will be very interesting to see how all this works. But this is a huge asset, I think, not only for the U.S., but for the world as a whole.

I do also feel that the international institutions have to do their job and we have to support them. As Carlos and Johannes and Eswar said, the meeting at the end of today an informal meeting of leaders, extremely useful I think. But then will come -- I mean, how is the IMF going to work? How is the World Bank going to work? How is the WTO going to work? How are the nuclear issues going to be sold? And each organization is focusing on a set of issues, and we have to bring these reforms into these organizations. Three weeks after the London meeting, there will be the spring meetings of the IMF and the World Bank with very significant proposals for reform on the table. Trevor Manuel, the South African Finance Minister, has just issued a report on the reform of the IMF, governance reform, financing issues. So we shouldn't think of the G20 meeting or any of such meetings as replacing -- if you like the legal constitutional, institutional progress we have to make within the international organizations. And we cannot, whatever number of countries we choose, there is a certain legitimacy in organizations which have very

wide leadership, membership, and leadership that is open worldwide. You know, even if we made the G20 into a G30, it could not replace the board of the World Bank or the board of the IMF where everybody is there. And we have to somehow combine the informal impulse function of the G20 with the actual governing organs of the international organizations. And there reform is needed, and clearly Europe has to adjust. One of the problems is that historically, Europe has a disproportionate representation in these organizations.

MR. ANTHOLIS: Well, I was going to turn to Johannes, both because he was raising his hand, but as a general matter. It's something that he's paid attention to on this set of questions. I mean the idea of a G20 or any one of these groups is to be even less than a board of directors, even less than a parent holding company, on a bunch of subsidiaries. But at the same time, the coordination function is vital. So where -- how do we think of this moving forward?

MR. LINN: Well, yeah, I raised my hand because I'm sort of adding to the note of optimism of Kemal. I think the fact that we've gone now dramatically beyond what was a discredited, in effect, discredited G8 framework -- which in a way was an offense every time it met to the rest of the world where the leaders were invited as guests and then sent out of the room. I mean, that is now receding to now an environment where

there's much more openness and inclusiveness. I think is while not the answer to obviously all the problems that we face, but at least is, I think, is a significant step forward. So in that sense, I think it's critical that we recognize this and build on that, and I think adding to the note of optimism.

The other point now in terms of moving forward, yes, I think the -- as Kemal said -- the institutions need to be reformed. The fact that we can't see -- and I think we can expect quite confidently now coming out of the G20 meeting an impetus, a strong impetus as referred from Mike Froman, for reform of the IMF. And I would expect also for reform of the World Bank ultimately. The fact the committee, the Trevor Manuel committee that has just reported did so, I think, knowing that the support would be forthcoming with quite radical proposals. I think all is a signal that the G20 and its existence now are in deed doing what we hoped it would do, namely generate the kind of impetus for real change in the institutions that have got to get the work done. So I think within the next year or two years at the latest, I think we will see very significant changes in the way the IMF in particular functions, the way the heads of the World Bank and the IMF will be selected, dramatic shift, important shift, and other aspects of this kind. So I think we're seeing the beginning of a dramatic shift, and I think in some ways it goes back to yes, to the crisis having unlocked a stalemate that was quite severe.

MR. ANTHOLIS: I want to turn to the audience now and take any questions that you might have. We've got about a half hour left, and if you could just first identify yourself -- I'm going to point to people -- reach to a microphone and identify yourself, both who you are and where you are from.

QUESTIONER: Chin Chin Lee from The Executor Group . I have two questions. First one is for Professor Prasad. And you know last week China's central banker, Zhou, reached a very interesting but provocative idea of --

SPEAKER: Could you speak up a little bit or hold the microphone --

QUESTIONER: Okay. Thank you. Expanding the role of the SDR to replace the dollar as global use of currency in the long run, the reason seems quite impractical in the short term. But at the same time, China also reached the idea to buy IMF bonds as a way to contribute the resources of IMF in dealing with the global financial crisis. So how do you view this proposal? Is this practical or is it just another impractical way to, I mean, as alternative to -- for China to manage its risk in the foreign reserve?

My second question is for Mr. Carlos Pascual. My question is relating to the upcoming presidential meeting between President

Obama and President Ho. Because of the worry of the heat of the discussion on the role of this summit and the wishes about the G2 and G20 and the market has a very high expectation, but it seems to me that G2 is a hard sale for, I mean, other partners in this meeting. But what's your expectation? How do you make of this upcoming summit? Thank you.

MR. PRASAD: First on the China issue, I think it's a very important step taken by the Chinese to assert their leadership on the world stage. In fact, going back to the discussion we've been having about the coalitions forming and about different leaderships, I think there are two very important shifts that have taken place in the economic landscape, the global economic landscape. One is that the U.S. has actually taken a much more engaged position, and as Mike Froman pointed out, the U.S. has in deed been leading by example in a variety of fronts in terms of its stimulus, in terms of its efforts to divide the financial system, willingness to engage in terms of regulatory reform, and actually put money and its support behind reform of the international financial institutions.

But the other equally important shift I think is the emergence of the emerging markets on the world stage in a leadership role rather than just one where their economics have been very important. So I see the Chinese statement largely in that context. The embryos that they have

of the U.S. is something they would like to tear themselves away from. Carlos pointed out that the U.S.'s largest official creditor is China. Luckily for us the U.S. is too big to fail from the Chinese point of view, and I don't think the Chinese will take any drastic steps. But it does represent a serious questioning by the Chinese and other emerging markets about whether the U.S. supremacy should last. And I think over time the U.S. is going to become much more effective if it does engage in the way it has been doing, but I think it needs to accommodate these powers. We talked about the G8 as well and here we've seen a distinct shift of Russia from the G8 group gravitating towards using the brick approach towards becoming more effective. In fact, I learned from inside sources that the brick communiqué that was put out during the finance ministers meeting was in fact initiated by Russia and they prepared the first draft because they thought it was important for that group of four countries to come forward with their own views about how to manage this entire process. So I don't think it's a very practical suggestion that the short run for the SDR to take over from the U.S. dollar as the dominant reserve currency. But I think it does represent again the emerging markets coming on to the world stage and their statement about what is going to be a natural process that I think is good for the world economy to not have one dominant reserve

currency, which as we have seen, has not served very well in terms of global macro or financial stability.

MR. ANTHOLIS: Carlos?

MR. PASCUAL: And on the U.S.-China relationship, I think - the first thing I would say is that we should try to avoid the use of the term G2 whenever possible, because I personally think it's counterproductive. It implies that two countries think that by working together they can dominate what happens on the international scene. It's absolutely correct that the United States and China are important. Their role working with one another on financial issues, on trade issues, on technology issues, on climate change issues, on energy security issues, obviously incredibly important. But the United States and China alone are not going to be able to resolve these problems without regard to the views and perspectives in Europe, without regard to the perspectives of the other emerging countries, without regard to the perspectives in Africa on issues related to poverty. And if we lose sight of that, then that relationship will cause more stress and strain in the international community, will create the perception that somehow we are two great hedge Mons, collaborating with one another, and I don't think that's particularly conducive to resolving a range of global problems.

I was just in China, and it was fascinating to hear some of the discussions there about how China sees itself. And there's this irony that's emerging -- and I might take this advantage if I could, Bill, maybe even toss it out as a question to some of our other panelists -- where on the one hand what you heard from Chinese officials and many in the business community was a sense that this is a moment for China to reaffirm, reassert, its competitiveness in the international system. It has problems, 20 million people displaced, et cetera, yet at the same time China is still growing and wants to reassert its international role. Yet at the same time, domestically there is this real concern about the nature of unbridled capitalism. What happens if you allow markets to go wild? And so this almost an instinct internally to be more statist in orientation. And one of our colleagues, Geng Xiao, who heads the Brookings Tsinghua Center there and has focused a lot of research on these issues, has tracked how over the last 18 months there has been a greater share of state-owned enterprises among the top 500 companies internally within China. And so potentially this seemingly contradictory nature, where on the one hand you get a much more global China, much more engaged China, yet at home a much more statist China. And I don't know if any of my colleagues think that that makes sense, how that plays into China's

role in the international community. I think we're going to have to -- we're still going to have to think through.

MR. ANTHOLIS: Well, and particularly at a moment where not just American leadership, but sort of the American vision for how countries should structure their economies, engage with the world, is at least under question if not under threat.

MR. DERVIŞ: Well, I think worldwide there will be a rethinking of the role of markets and the role of public policy, and I think that's a good thing. Now I don't think it will go back to the old type of statism, but there is obviously a big question, particularly in terms of financial markets, you know, what the role of the public policy is and what the role of the markets themselves are. And many countries are asking that question throughout the world, in the emerging markets, in Latin America, in Europe itself. Hopefully what will come out is a better combination of market mechanisms and public policy, but I do believe that a stress on government and the role of government, the role of public policy, is everywhere now, including in the U.S., of course. It must be hoped that it doesn't go back to kind of bureaucratic statism. But the lesson we will learn from letting markets just go, you know, unregulated basically, parts of markets at least, I think is a strong one. And economists and political scientists, everybody is, I think, in a rethinking

phase right now, and we don't really know where it's going to come out. Much depends on how successful the world will be in managing this crisis and overcoming it. If we -- if a year from now, you know, it's more like a bad nightmare behind us and we're moving ahead, I think we will have one kind of world. If, on the other hand, a year from now things are as bad as today or getting worse, if unemployment is still going up everywhere, the ILO's latest estimates, you know, 50, 60, 70 million people or more unemployed. If we can't stop that, then the reaction and the political consequences will be quite severe.

QUESTIONER: Hi. Bob Davis from the *Wall Street Journal*. First to Mr. Derviş, but to anyone. This gets to the architecture question. I understand that --

MR. ANTHOLIS: Can you hold the microphone up a little bit closer?

QUESTIONER: Oh, sorry, sorry. I understand that Prime Minister Brown has talked about a secretariat for the G20. Do you think that's a good idea? And as an alternative, when you were talking about the World Bank or the IMF committees, there's a proposal by Trevor Manuel, for kind of a Ministers Committee of the IMF. Wouldn't that be a more sensible, you know, board of governors of the international economy than the G20?

MR. DERVIŞ: Well, my feeling -- and Johannes said it and others said it. I think you said it, Bill. If there's no secretariat support at all, the danger for these G20 meetings or G8 meetings to just, you know, come out with declarations and then there's very little follow up, we've seen that danger is there. So allowing some kind of secretariat to work on follow up and to make sure that these meetings are not just once of events, but that there's a mechanism that goes on I think is important. However, I would also agree with Johannes that it could be, it should be very, you know, kept lean, and it should build on the existing institutions in their various domains rather than trying to set up yet another institution or a bureaucracy there. So it should draw on the IMF, the World Bank, the UN system, the WTO, and use staff from these institutions to help follow up.

In terms of your second question, which I think is an excellent one. It will be much debated in the next months, and I think it's absolutely a key question. You know, at the end of the day, shouldn't there be a governance system based on constituencies, ala IMF, World Bank, of course reform constituencies, where everybody is present but instead of having a one country, one vote type of situation, the vote is weighted by certain weights representing economic size, population, contributions into the global system, helping, you know, the amount of

money that is provided to finance global issues and that's where the Trevor Manuel proposal comes out. In other words, let's create a ministerial-level council, global council, but that would not be a council just representing 15, 20, or 25 countries, but it will be a council representing 20 some constituencies where everybody's represented, but everybody does not have an equal weight. And the advantage of that, of course, you have universal legitimacy. You have everybody being present. The disadvantage, how are we going to agree on the weights? You know, having agreed that everybody should be there, then of course the big fight is on the weights, and of course the whole Europe issue is up front.

So there's no easy answer to this. I do believe we need both. We need a more informal leaders forum on a G20, but I think as I said and others said before, we cannot forget that at the end of the day real follow up and real public international issues management has to be done within the framework of the institutions we have, and we must have a serious look and reform at governance. The debate between these two things is going to continue. I think that's why the question is so good. At the end of the day, the council of Trevor Manuel will have many of the same characters as the G20. And it is somewhat, you know, it's not clear how you would have an institutionalized G20 continuing, and at the same time have this ministerial governing council at the IMF. And that I think will

be debated during the spring meetings, during the Istanbul meetings of the IMF and the World Bank, and at various international meetings to find a solution to this tension between the two approaches.

MR. LINN: I think for the immediate future, if I understand the Trevor Manuel proposal, this is really to fix a problem in the IMF. It isn't, I think, designed to set up a counterpart to the G20 leaders. Now, it will set up a tension with the G20 finance ministers, so that one will have to be sorted out. I think the G20 leaders forum is a very different and will be occupied with much broader, I would expect certainly in the next two or three years, broader sets of issues for which -- and this was your question -- an IMF seat, the IMF ministerial forum will not be the right secretariat or not be the right underpinning for the broader G20 summit level. So I think one can distinguish a little bit, I think, the response by Kemal is totally on the mark for the G20 finance ministers. I think a somewhat different set of questions arises, particularly as regards to a secretariat, and the longer term outlook for the G20 summit.

MR. DERVIŞ: Just, I think, I mean -- I agree with you 100 percent. One has to distinguish between the leaders level G20 and the finance ministers. However, the finance ministries and treasuries have until now provided the secretariat function also to the leaders meeting. So

that's why another type of secretariat is kind of needed if we want the leaders forum to be institutionalized.

MR. ANTHOLIS: If I could just inject one other thought in this as well, which is as Kemal knows from UNDP days and World Bank days, one of the important functions of international bodies is not just to help coordinate the constituent governments, but also to do outreach increasingly to NGOs, advocacy organizations, the business community. And one question that I think needs to be thought through in the G20 context is while all politics is local and all of the countries have to deal with this, the instant you create a secretariat, you create an expectation that someone can call. And, in fact, the internal coordination may be a sliver of the work that's involved once it's created in terms of doing that kind of outreach because you have to answer the phone calls when they come in.

In the front, Gary?

QUESTIONER: Thanks. Gary Mitchell from the *Mitchell Report*. I want to ask two questions, a quick and small one for Johannes Linn who said something pretty interesting in his opening remarks with respect to who's at the table in London, that there might be some people there who shouldn't be -- I won't ask you that question -- but there might be some people who are not there who should be, and I'd be interested to

know what you were, what was, who you were thinking about on that point.

Second and sort of a larger question which -- it seems to me that we've been sort of wrestling with this morning and that is I was thinking how the last eight years gave a bad name to two otherwise interesting concepts. One is democratization and the other is coalitions of the willing. And as we -- as I listen to the conversations here this morning -- and a host of them that Brookings in particular has been involved in -- it seems to me we're groping. The institutions post-world war were created to deal with what we believed were a fixed set of circumstances about who were the leaders, et cetera. There are many ways to describe where we are today, but "in flux" could certainly be one way to describe it. So if post-World War II was fixed, the 21st century is in flux. My question is do we know enough yet to be retooling these institutions and/or creating new ones, or are we in a time perhaps where we're going to have to become sort of more comfortable with ambiguity, more comfortable with sort of ad hoc/joint venture adaptive management approaches to things. And I'd just be interested in the panel's take on that.

MR. LINN: On your first question, it's -- frankly it's a question ever since I've been trying to avoid because Colin Bradford's and my view all along has been let's get away from the G8 and find a

pragmatic next step in the G20, and our view was in fact just that. So continuing the sense, the sort of the pragmatic approach, I would say for God's sake now let's not get into a big argument about who's in and out, but get on with the job. So in a sense I'd like to stop here, but since I guess myself raised implicitly or explicitly the question of who should be in and who should be out, as a European myself, I would say the Europeans are really hurting themselves by not speaking with one voice and sitting on one chair if you wish. And the fact that, you know, at the November summit Mr. Sarkozy managed to also invite and get accepted the participation of Spain and Netherlands, who each of them have their own justification and good reason from a national perspective, and maybe even in terms of relative standing in the world economies and so on, but I think was a mistake because it reinforced the vision that this is sort of the Europeans once again pushing themselves at the table and frankly also added sort of diffusion in terms of the Europeans own perspective on this. So I think they could actually be more effective. Then there are the other smaller players that have maybe in some ways an anomaly, Argentina perhaps the most obvious one who maybe shouldn't be at a consolidated table. Whether Canada, Australia, is debatable again, but one could go on on that side who's out or who perhaps should be out. Who should be in? I think the most obvious ones are probably Nigeria and Egypt, but

there may well be others, maybe Chile instead of Argentina and so on. So, but in a sense we're beginning that sort of, you know, debate of who's in and in the end there's no ideal, no ideal perspective unless you go -- and this could be in the meeting for the longer term, in deed, the long term sort of outcome is that one goes a constituency route. And in a way, I think from a long-term perspective, that is perhaps the most interesting way to think about solving the problem of who's in and who's out.

MR. ANTHOLIS: You know the interesting thing -- I was just whispering to Kemal -- but thinking back to -- I think it was '98 -- when the first G20 meeting happened in the midst of the age of financial crisis. At the time Argentina, you know, you were only six or seven years into economic reforms in China and India. Argentina was seen as one of the great darlings. And they were the growing, emerging power, and it was Argentina and Brazil and you couldn't say the two words without one another. I think what we've seen in the last 12 years is Brazil is clearly a world power. Argentina has been doing a good job on keeping a lot of things in place, but it simply can't keep up because of population size and internal economic problems and the like.

And so, you know, you can set these things at any given time, but you have to -- we may be in flux again, you know, 15 or 20 years. It's the great anecdote whether it actually happened when someone asked

Mao Tse Tung was the French Revolution a success? He said "Too soon to say." You know, with the G20 that we have today, 10 or 15 years from now may be the wrong group, but I think we're moving in the direction of trying to figure out how to deal with emerging economies in an increasingly networked and globalized world.

MR. DERVIŞ: The weight and the constituency based on weights, of course, you know, as Johannes just said, has the advantage of evolving automatically over time. If the weight -- by the way, the Stieglitz report done for the General Assembly at the UN, you know, clearly proposes as an alternative a constituency-based council where the weights could reflect economic GDP, the amount of resources countries put into peacekeeping, into humanitarian things. Other weights population can be considered and so on. So, of course, if you go to a weighted system, you know, the evolution is kind of automatic by the criteria of the weights. The problem, as I said and others have said, agreeing on these weights as a starting point is not easy.

MR. ANTHOLIS: And that applies say in the climate change context as well if you're trying to figure out what a long-term cap is for any particular country, how do you do the weighting? Is it per capita? Is it per GDP? Is it, you know, some combination of the two, plus some other factors? How much natural renewable resources you have in a country?

Brazil has terrific hydro; other countries don't have those abilities. So in each of these cases, you're going to get into a technical argument of who counts in what way?

MR. PASCUAL: On the question of whether we know enough to be able to begin reforming these institutions, there are some things that we do know enough. And I go back to a point that I made earlier, which is that the nature of the problems that we're facing today are transnational in nature. They don't just stay within the borders of individual countries. And what we're grappling with is, how do we deal with this phenomenon that we have to exert some form of governance on problems that aren't just the purview of one individual country, but countries actually have to cooperate. And so in order to be able to do that, you're going to need countries to be able to come together and actually negotiate some rules of the game that create some predictability and stability and how you're able to do that. And the tension that we face is that on the one hand, you absolutely have to begin to put in some rules of the game to deal with those problems; otherwise what you get is tension. One of my colleagues that I've worked on -- well, you know the book well, *Power and Responsibility*. Great book. Available outside. Happen to be one of the co-authors. One of the things that we focused on was that if you have a world of interdependence and you can't govern it,

that interdependence leads to conflict. So on the one hand we have to figure out how do you begin to define those rules? The other side of the equation is exactly the kind of tension that Bill was talking about on something like climate change. The scientific, technological, economic, and political factors surrounding it are going to keep evolving, and we don't know what all the answers are. And so the challenge is, how do we define a better set of rules that get us to a place where we have more constructive international cooperation on those issues and put us on a more positive path of cooperation rather than allow us to be in a situation where you consistently have these incentives for bigger thy neighbor policies which could really bring us down? And so the challenge that we face is, in fact, to get us to that point. To have enough of the rules of the game that we start to define, how do we better coordinate and operate within the IMF? How do we better cooperate on climate change issues? How do we get a better set of understandings on nuclear security? Maybe we don't have all of the answers, but if we get ourselves on a more constructive path, the point is to not get into that situation where that interdependence too simply results in conflict and pulls us down.

MR. ANTHOLIS: I think we have time for one more question. I want to take one from the back because we've sort of gone in

the front. Any in the back? The gentleman three-quarters of the way back. Thank you.

QUESTIONER: Hi. Mike Diamine from IFC East Asia. The question in front of the IMF is largely one of committing more resources now without having to wait through possibly a long process of the formal governance. Are there ways, I mean, if we -- purely a matter of increasing capital, then the weighting issue would weigh against emerging markets, the smaller ones who sometimes don't have enough capital even to fulfill their existing allocations. So are there ways to do so, increase the resources available to the IMF without necessarily dealing with the governance issue immediately?

MR. ANTHOLIS: Eswar?

MR. PRASAD: It could be done. The question is whether the emerging market countries are going to be willing to do it because this notion of putting in resources now with governance reform to come in the future doesn't seem to be very appealing to them. And it's sort of obvious why they would do it. And the problem right now is that you have the IMF doubling up an institution where it's taking care of -- George Soros uses an interesting term in a piece about how the IMF could become important for the periphery. I think in fact it's going to become important for the outer periphery, which means to lower income countries and smaller

emerging markets for the systemically important emerging markets. The IMF is becoming somewhat irrelevant because they don't see themselves as having a big voice there, and they could put resources in the countries like India and China, but they're looking for alternatives, trying to use regional pooling arrangements and so on. So they don't understand why they should provide more money to the IMF if it's not going to provide the sort of insurance that they need against crises, especially if they don't have much of a voice. So I actually don't think it makes sense to separate the two issues, and as I said, I don't understand why this governance reform should be something that takes two years when we can undertake dramatic changes like increasing the IMF's capital base by doubling the current level or twice the current level, and say but governance reform is too difficult, let's leave that for three years from now.

So I, in fact, am encouraged that the emerging markets would take the stand that they should tie this together because this is a good opportunity to get this international financial architecture working a lot better than it is right now.

MR. ANTHOLIS: Isn't there a bit of irony in the idea that at a time when the United States is urging many other industrial countries to spend at home, and almost seems to have given up on that prospect, that

they're going to push hard for these countries to spend outside their borders through the IMF and IFC and other places?

MR. PRASAD: The IMF is encouraging countries that do have surpluses to do both actually to stimulate domestically, as well as try to shore up the international financial system because the big concern right now is if international financial markets don't stabilize and some of the medium-size emerging markets start going to the brink of crisis, then that could have a much bigger spillover effect on the U.S. and the emerging markets that do seem to be standing still like China and India, for instance, which have been relatively insulated from the crisis so far, but are still facing some serious domestic difficulties.

But what you are saying is precisely the sort of issue that is coming up domestically in India and China. This is precisely the debate. Why should we help the IMF? Why should we help the international financial institutions when we have our own needs, and besides, nobody seems to want to play ball with us?

And going back to one of the earlier questions, in China there was this sense of great concern that another aspect of protectionism that's coming up right now is the currency wars. We have for instance Switzerland has explicitly intervened in order to keep its currency from appreciating. Japan has indicated that it might do so, although of course

recently the yen has weakened a little bit. And China says look, if we were to try this sort of thing, the international community would be down on us like a ton of bricks, and yet Switzerland can get away with it. So why is this very uneven treatment acceptable to the international community? And that sort of thing, I think, is the natural reaction from emerging markets. It will have to get beyond with this cooperative sort of approach that the other panelists have been talking about before we can get these institutions working well.

MR. ANTHOLIS: Carlos -- and then I'm going to close by asking each of our panelists one final question and go down the --

MR. PASCUAL: I actually want to take advantage and ask a question of the other three here. Kemal put this on the table, the importance of actually focusing attention on the poor. They're the ones who are hurt most, the ones with least resilience. We haven't talked that much about what realistically might come out of the meeting that could focus attention on the poor. I don't know, Kemal, if you want to say more and if the others want to fill in.

MR. DERVIŞ: Well, I mean, it's very, very important because they are being hurt very, very severely, very seriously. And because, yes, they're not systemically important in the financial sense, there's a great danger that not enough emphasis and importance is given

to that. They are, I think, systemically important politically for many reasons, you know, state failure and terrorism and all these things that grow when people are desperate. So in that sense I would say they are systemically important, it's just that they're not that part of the world economy, so one has to focus on that. Clearly the UN Secretary General that is his major mission in London is to try to help focus on that. It is very important that the safety net that is provided, that the foreign assistance that is provided to the poorest countries is not cut on the country increases in mind with the commitments. But it's also important that other things on trade policy issues, climate adaptation, many of these things that have a great role to play in helping the poorest countries are not forgotten. I do believe that there are ideas, for example, you know, you've seen the *Financial Times*, some of these things that are being leaked ahead of the meetings so I'm not, you know, divulging a secret here, but some of the resources of the multilateral development banks, including some of the gold resources of the IMF, could be used to subsidize some of the lending to the poorest countries. I do believe it's very important that the UN humanitarian system is allowed to work, the world food program, the program for children -- UNICEF -- and all these institutions are funded so that they can provide that safety net to the poorest countries. Of course, much of it has to do with governance in the countries themselves. Money

doesn't solve all the issues, but at this time of great crisis, it is critical that the meeting doesn't forget the poorest countries.

MR. ANTHOLIS: Eswar?

MR. PRASAD: In the short term, I think direct assistance is the key way to protect the low-income countries, but in the medium to long term, I think what the systemically important countries can actually do is get their act together. Once you have the big economies having economic stability, once the financial system is stabilized and they can start importing more, and so long as the protectionist tendencies we're seeing right now don't have a persistent effect, that I think is ultimately the best thing that they can do for the low-income countries.

MR. LINN: Yeah, I think early recovery obviously is key, but I think there are also other measures; the SDR allocation that is one option for increasing the IMF resources. Say it's at \$185 billion which is the level it could go without very complex parliamentary approvals as I understand it, would actually give the low-income countries about as much in free spendable resources as they get in a year from either of the soft loan window of the World Bank. So this in itself would already be quite a substantial, quite a substantial bit of help. The gold resource sales of the IMF is another option. There's recapitalization of the multilateral development banks, particularly Asian Development Bank and Inter-

American Development Bank, which is a key measure currently being debated and decided. Fortunately, I think that's one area of progress. The World Bank and the other multilateral banks are trying to frontload the soft loan window lending and financial support for the poorest countries. Good thing to do; in fact, more can and should be done, but of course that means two or three years from now there may well be big gaps. So the donors have to start actually thinking now about when and how they can have early replenishments for those soft loan windows. And that all is going to be an important question for then; how does one take up the Bob Zoellick proposal on a vulnerability fund? Is that a good idea? How can it be funded? Is it adding to the fragmentation that we have already seen by having yet another fund that's out there rather than focusing on the existing soft loan windows?

So I think there are a lot of important issues actually in the short term, a lot of opportunities for moving quickly and some of them are fortunately being taken. But I think a systematic look at this and a strong impetus from London in this area would be very helpful. Whether we'll get it, I'm not quite so sure because unfortunately maybe it's fair to say I think the G20 are very much focused on their own problems right now. Now Ban Ki-moon -- hopefully the Secretary General can push and let's see what comes out.

MR. ANTHOLIS: So in closing, I guess what I'd like to ask each of you to do is give me your "hoped for headline" on the front page of the *Financial Times* coming out of the G20 meeting. And I'm going to start with Carlos who's been my colleague the longest probably, and move in this direction to my colleague who's been my colleague the shortest period of time.

MR. PASCUAL: I have a hard time coming up with a headline on this. It's -- I would think "G20 set path for the future." That they're not going to resolve it all there, but if they can create some confidence that there's a path to actually keep this going in a constructive way, that's probably the best thing that they're going to do.

MR. ANTHOLIS: Johannes?

MR. LINN: "G20 meets again in September."

MR. PRASAD: "We agree to stimulate, reform, coordinate."

MR. DERVIŞ: Well, since I'm a Sherpa, I have to be more careful. But I think that there will be a --

MR. ANTHOLIS: You can set expectations exactly where you want them; this is your opportunity.

MR. DERVIŞ: Well, I think there will be a figure in the headline, but I'm not going to say what that figure will or should be. But I think there will be a financial commitment to dealing with the crisis, and I

think that is needed actually because there's a lot of talk about recapitalizing development banks, the IMF liquidity resources help to the poor, but, you know, talk is cheap. One has to put some figures behind it. So I look forward to some good figures, and I do agree on the coordination side, on the working together side.

MR. ANTHOLIS: Well, talk may be cheap, and you may not have paid to get in here, but I think we all got quite a lot out of the conversation today. So thank you all for coming and thanks to the panel.

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