

Brussels Forum

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Keeping the G20 En Vogue

Mr. Craig Kennedy: Ladies and gentlemen, please take your seats. We're about to start the program. Please take your seats. Thank you. Bruno Lete to the Green Room, please. Bruno Lete to the Green Room. So welcome back--in global economic governments and planning. We wanted to build a very special panel around this issue, and we actually asked one of our favorite moderators, Philip Stephens of the Financial Times to lead the discussion. So I'll turn it over to Philip to introduce the panel. Come on in.

Mr. Philip Stephens: Thank you, Craig, for that introduction. Thank you all for coming. I had intended to sort of strike a chord of sort of modesty at the beginning of this panel. And then I thought better of it. 'Cause the facts, I think, speak for themselves. We have the best panel, and we have the most important subject. The best panel, where we have

Gordon Brown, Robert Zoellick, Pascal Lamy and Michel Pebereau. I don't think I have to say any more than that.

The most important subject--well, understandably, a lot of the discussions this weekend are going to be, and rightly so, about the urgent crises, problems and opportunities facing the world, particularly the uprisings in North Africa and the Middle East, also, the consequences of the tragic natural disasters in Japan. But it seems to me that we also need to connect the urgent to the important. That's what the best statesmen, I think, do. History's taught us that.

So the important, I think, is the capacity of the international community to deal with these issues, depends critically on whether it builds the rules, the institutions and the systems of international governance sufficient to address these sort of problems. So our subject is where does the G20 fit in this? Is it, after its successes in tackling the global financial crisis, going to be the pillar of a

new global order? Or is it going to turn out to be a docking shop albeit a useful one?

As I said, we couldn't have a better panel to discuss that. Well, I'm going to start with a question to each of our panel, and then I'm going to throw it open pretty quickly. Gordon Brown, I mean, if one borrows a phrase from Dean Acheson, you were present at the creation, as it were. The London G20 Summit, in 2009, was widely seen as this sort of watershed moment when the global financial system was pulled back from the brink. You've written eloquently since on what needs--where we need to go forward, how to build global governance.

Two questions--by the way, Gordon Brown's book I noticed is on sale outside, so I recommend it, having read it myself. Where do you--when you look at the G20 now, standing back a bit, are you optimistic? Are you pessimistic? What's the G20? What do governments got right? What have they got wrong? Where should we head next?

Hon. Gordon Brown: I remember when we brought people together for the first time at the G20 in London, saying to the people who were assembled and quoting the words of Churchill about the 1930's, when he said of the attempts to deal with the recession in the 1930's, that people had been resolved to be irresolute, adamant for drift, solid for fluidity and all-powerful for impotence.

And, in the 1930's, as we know from our history, international cooperation not only failed, but we had protectionism, and we eventually had conflict. I think we should be determined that we do things differently when dealing with crises in the future.

And I suppose the positive thing is that the world did come together to stop a recession becoming a depression. I think the disappointing thing is that the world has not gone on, either through the G20 or through the international institutions generally, to do the other two things that we set out to try to do in April, 2009.

And the first of these two things was to rebuild the global financial system, and I still believe that we have got a series of national regulatory systems trying to deal with a global financial problem. And the second thing is that we need it to move forward to create what I would call a global growth pact.

You see, 50 years or 100 years from now, people will look back, and they will see that this was the biggest period of transformation that the world has ever seen since the Industrial Revolution. And the attitudes of people, the discontent, the protectionism, the demonstrations at the kicking out incumbent governments are all part of that. We've got this major change taking place, billions of people joining the industrial economy, and this change is only half complete. We're in a transition to the next stage, which is the growth, if you like, of a middle class in different parts of the world and billions of people, in the end, becoming part of that consuming middle class.

And so the rebalancing of the world economy will take place at some point.

So we're in this transition, but we don't have the global institutions to deal with it. So we have food prices rising, and we don't seem to have a global answer. We have volatility in energy markets and issues of nuclear power. And that does relate to the supply of energy and demand for energy around the world. We have Pascal trying very bravely--and I do applaud him--to find a trade deal, but we could have the first trade deal that fails since 1948 if we cannot get the world acting together. We don't have a global growth pact despite everything that Bob and others have been trying to do. And we've got this imbalance in the world economy, and it should be sorted out far more quickly in my view by international cooperation, and we can prove that international cooperation could have higher growth rate, probably get about 50 million more people into work, take 100 million people out of poverty. It can be done.

So the first stage was to deal with the recession. The second and third stages to rebuild the financial system and to have a global growth pact that actually works and coordinates the economies that are now global, but acting as if we're all retreating into national shells at the moment. That is still to happen, and I think that is the disappointment after 2009 that too many countries are retreating into the national shells and making it impossible for the benefits for global cooperation to be gained.

When I was chairman of the IMF Committee, we had a demonstration outside one of our meetings, and the banner that was being most obvious to me at that meeting which one which said, actually, "Worldwide Campaign against Globalization." I think, Pascal, the French did one better in 2009. The anti-globalization protesters had a campaign in 2008 which said "NO to 2009." And there is a huge danger unless we act together. This retreat into anti-globalization protest and into protectionism will become a greater reality.

And the people like Bob and Pascal and I know Michel are trying to avoid this, have got to be given all the international support that they need and should have.

Mr. Philip Stephens: Just very quickly, is the G20 the right organization?

Hon. Gordon Brown: The G20 has got to change to become a constituency organization. I think Pascal's got the same view of this. It's got to become--it's got to represent the G192, if you like. So remember the G20 is not 20. It's about 26 or 30 in the end, get around that table. But you've got to give every country some role in this by giving them some representation if indirectly through a constituency system.

So one country will represent a number of countries as happens at the IMF and it's got to be a G192 in the end with the 20 or 30 people who are sitting down at the table more representative of the continents and the regions from which they come. And so you move from a G8 which is insufficient to deal with the world's

problems to a G20 that build a constituency system that gets you to a representational forum where countries can feel that they are not neglected. Otherwise, the voices of Africa and Asia and Latin America will not feel heard. And clearly the voices of the Middle East and North Africa are ones that are not being heard at the moment in international forums in the way they should.

Mr. Philip Stephens: Thank you. Pascal Lamy, Gordon Brown said you've labored mightily first as a European Trade Commissioner since the W.T.O. to build this more cohesive open work global trading system and I think everyone in this room would agree we need it. The G20--no G20 communico is complete without a commitment to push this--for this process. Is the problem simply a lot of these trade issues are just intractable or is the problem that the G20 isn't the place to sort them out, as it were? And to pick up Gordon Brown's point; can you see it--how do you see it building possibly as a constituency organization?

Pascal Lamy: Well, on your first question I think trade is a good test of what the G20 can do and cannot do. And it's a good example of why the G20, contrary to many public perceptions, is not a government of the world. It's one important necessary piece of a very complex system of noble governors which has many other bits, but what the G20 can energize, can trigger.

So where the G20 is useful is for leadership impartions. Knowing that the capacity of the G20, it said to deliver (inaudible). And by the way, I'm certainly not an advocate of institutionalizing the G20 or, you know, putting one more bureaucracy secretariat around this. And if I look at trade basically the G20 did very well on the defensive and did poorly on the offensive.

It did very well on two major defensives which were the threat of protectionism during the crisis. That was well done overall, and the G20 did well on the less visibly topic, but which Bob and I know is of major importance, which is trade finance at the time where

world trade was risking to be sort of strangled by a constriction of the credit system notably on trade finance and notably for developing countries.

Now, (inaudible) the G20 did the right thing at the right moment with the right energy. Where the G20 did less well, obviously, is on the offensive agenda which (inaudible) around which as many of you know is stocked, and it's stocked basically on a U.S./China difference on a number of industrial tariff lines.

And to answer directly your question--I'll answer your question by another question; do you think President Hu Jintao and President Obama can enter into the complex tariff structure of the chemical industry and decide which of the lines would go down by one percent, which of the lines would go down by .5 percent among the 350 chemical tariff lines which are there?

Mr. Philip Stephens: So that's it, is it? Are we saying that the whole global trading system is being held up because Hu Jintao and President Obama can't be expected to get into chemical tariff lines?

Pascal Lamy: The reality is that they've said the right things. In Seoul we had a very good discussion at lunch on trade. President Obama said for the first time, and it was important that he would say this, "If there is a good deal on the table I'll take it to Congress," which is a major conversation for a U.S. president to say, "I'm ready to engage Congress on a trade deal," which as you know is not that easy down there.

Now, once this is done this is where the G20 can do things and cannot do other things. It has to trickle down to negotiators finding the right compromise. For the moment they haven't done that. They have their political constructions the G20 said you should get there, but there are a few chemical constituencies in the U.S. who want a Chinese scalper and there are a few Chinese constituencies in the chemical industry who are not that ready to give a Chinese scalp. And the question is just, you know, what's the final dimension of this?

Now, on your second question; like Gordon I believe at the end of the day the only way to address to legislative problem of the G20, and the G20 has a legitimacy problem, not--UN system is to switch it into something that would resemble Bob's board, Dominic (inaudible) board which is a constituency system. And it's, by the way, it's taking this direction except for the euros. And we'll come back on what I said last year in the same place because it obviously ruffled a few feathers, and I frankly shouldn't do that.

For the rest, when you see that we now have two or three African representatives you have the chair--the rotating chair of the (inaudible) for instance. It's going in the direction and I think it's a good direction.

Mr. Philip Stephens: So we should stick with it, yeah?

Pascal Lamy: Yeah.

Mr. Philip Stephens: Okay. Michel Pebereau, you bring a rather different perspective to this

conversation as chairman of BNP Paribas, one of Europe's World's biggest banks. We've heard G20 save the global financial system. Banks haven't had a great press in the last two or three years. I mean, quite a lot of people think we save the banks, as it were, the tax payers, and as we look at the Euros and we see problems now.

But I'd like to focus--you to focus on the role of we seem to have regulation at every different level now. We have national, European. We have the IMF with a role and the G20. Looking from the sort of private sector end of the telescope, how's the G20 going and is it the right place, if you like, to package a global system of financial regulation, backing regulation?

Michel Pebereau: Yes. First and forely, I have to mention that the G20 was a necessity at the moment when it was created, because at this moment from the point of view of the private sector, what was essential was to create again confidence. The main issue at this moment was that (inaudible) of the public opinion

worldwide, but essentially in the U.S. and in Europe. There was a problem of confidence and the people were stopping investments as well as (inaudible) individuals at the level of companies. People were stopping investments, were stopping buying, were just saving money.

And so this group was created at the moment when confidence was a necessity. And the size of the group, what it represented at the (inaudible) of the world was just adapted to that issue. After that the question was to know what was what they had to do. And two issues were on the table. One was (inaudible) gross and the other was, was to create the climate of financial stability. And on those two fields at the end of the day, the G20 was useful. And to say on the field of financial stability, well they have from the beginning stated what was the different fields in which it was a necessity to try to have new rules.

You know, they have not the capacity to decide the rules, same story for Basel Committee. It's not a

decision making system. It's just a system in which some people are trying to create a consensus from which there is a possibility in each country to make its own decisions.

And what is very important today is to keep the G20 at the level of some kind of consensus. (Inaudible) Basel Committee because Basel Committee is just regulators. And decisions have been--have to be made at the political level. It's from low that you can regulate the banking sector.

So you need the two stages. At the--at the level of Basel Committee it's possible to discuss technical issues, but final decisions will be made at the level of G20. And what is very important is that those decisions will be implemented worldwide. And it is only the politicians which have the capacity to decide so.

So today--

Mr. Philip Stephens: It's important worldwide for competition matters or--

Michael Pebereau: It is important for (inaudible) because what has been the most rated in the past was that some problems of supervision is the United States created the problem worldwide. Financial crisis started from U.S. banks. Investment banks and their regulators. Then it came from Europe. And in Europe, the problem was again in some bank and some countries. But it was not a global problem. My bank had no problem with this (inaudible) made money 2008 for years (inaudible).

So the question of the financial study is an important one for everybody. And so it is the reason why we are (inaudible) in favor of the better regulation and I am certainly in favor of better supervision because one of the two issues which appeared during these crisis was also supervision.

Mr. Philip Stephens: I am--I detect, perhaps I'm just a journalist looking for splits, but I detect a slight difference between Gordon Brown and your views on the role of the G20. But we can come back on the

financial side, but perhaps we can come back to that.
I want to turn to R--

Gordon Brown: I would actually subject (inaudible)
and division (inaudible).

Mr. Philip Stephens: As I said I'm a journalist
looking for splits, uh--

Gordon Brown: I won't disappoint you as a
journalist in, in searching for a headline. I think
we're all talking a multilateralism. So, you've got a
number of international institutions that have
different roles. You're not going to be able to talk
in the end about one single institution even on
economic policy that is overwhelming powerful. But the
G20 will have to be the premia institution for economic
coordination and will have as Pascal says legitimacy as
long as it can build some form of constituency system
that involves countries who are outside it. But I just
think that the problems that have just been raised as
we've talked show why there is actually an urgency
about making this system work better.

Gordon Brown: You see to me you've got an imbalanced world economy. You've got far higher levels of unemployment than you need to have. You've got global growth that has probably reaching its peak actually given what's happening in Asia. And, the inability of Europe and America to grow fast. You've got the trade problems that Pascal has identified. And if there is no coordination the world will grow at a lower rate than it should.

And if there is no coordination we'll have millions of people unemployed in a way that is unnecessary. And if there is no coordination the very trade deal that is actually in the interest in both America and China as well as the rest of the world will not happen.

And, it does need a political push for these things to be made possible. And, uh, Pascal's right. I mean there's no American president or Chinese president who should be involved in the detail of delivering a particular chemicals percentage. But the political will has got to be expressed so it actually happens.

And, that's it that's why you need an organization such as the G20.

Mr. Philip Stephens: I think this is going be-

Gordon Brown: --moving forward.

Mr. Philip Stephens: I think this is going be the core of a lot of our conversation, but I want to come to Robert Zoellick who, in a way it seems to me, sits at a sort of, in a unique position. Because if he's at the sort of at the head world bank he's at the sort of intersection as it were of the new and the old powers and sees that interaction very, at close quarters. I want to see. I want to ask him two things.

One, the question of how does he think the G20's working? And, two how does it fit with the financial institutions set up in 1945 or after 1945? But, I also him to broaden the discussion a little bit by asking him, you know is this an organization that's destined to remain entirely economic? Or, will it go the way that the G7 did over time branching out from economics into politics? I mean presumably, here at last, the

G20's going have to have something to say about what's happening in the Middle East this year.

Robert Zoellick: Well first, I sometimes feel the G20 is an organization for our era because the numbers don't add up as Gordon said. There's actually many more than 20, and there's an evolving process here. Um, but let me try to connect a couple of thoughts in answering your question. And, start out by saying that Gordon really does deserve I think some considerable credit for the leadership in London.

And, that is not only a compliment to him, but it's also I think, an observation for the future which is you hear a lot of talk about multilateralism. Multilateralism doesn't work unless there's leadership within it. So, it's nice to have everybody around the table, but you have to figure out some drivers of the system.

Now, if you think a little bit about what happened at London and I was just reflecting on this here it also tells you a little bit about way, the way that the

G20 can be effective. Number one it talked about a big increment of additional resources for the IMF which was necessary, but also created confidence. So, it was resources for one of the current structures.

Second, Pascal and I and a few others brought something to the table from existing institutions to try to deal with the trade finance problems. So, it used some of the existing institutions. Third in the area of financial regulation people knew this was going to--and supervision, a key issue, but the system wasn't really capable of dealing with it. So as they took this financial stability forum which was really an instrument created in a different context with a smaller number of countries and expanded it to a larger role which hasn't yet completed its role, but, in a sense created another piece of the network. And, the fourth piece and I think this will be the tricky one was it aggregated a series of national actions.

Because we can't forget you sovereign countries here and part of the problem now is they perceive their

situation a little bit differently. But, I think it's important to recognize in that sense what the G20 did with the right leadership was play a role as a steering group. So, like Pascal I think it would be deadly to create a secretariat in a bureaucracy. The steering group needs to use the existing institutions and needs to figure out how to get their ideas, how to resource them.

The G20 then later helped built capital increases for the World Bank and from some of the regional development banks and in a sense see this as a network model. Now as part of that network I think there's two key components to the legitimacy. One you've heard talked about and I think the system is evolving towards this idea where you will have some regional representatives. I think Gordon had invited Ozzie on. There's some from the African Union, APEC.

This is still in a state of evolution. Since we're in a Europe capital I'll just say because people often won't say this it's still a little odd that of those

25, 26 at the table about nine are European. And you know, of course each European has a good justification for being there. But, I can tell you as a non-European it doesn't bother me I work with it, but if some other non-Europeans will say how come you have that sort of, uh, composition? That's something that Europe's going to have to figure out for the future. Europe represents itself as a regional organization through the commission and the presidency. It also there is individual states and a large number of states.

So, as we think about where this then goes for the future I think it's important to try to connect this with realistic expectations. You asked about political issues, the strength of the G20 now is you've got more players, the emerging markets that's absolutely critical compared to the G8. The weakness is you've got more players and it's harder to get things done in a bigger group. And, I think that's one reason I would look to leadership in small sub groups. Not necessarily formally done, but informally done.

You have the EU countries, uh, you have APEC countries, you have NAFTA countries, you have the G7/G8. The groups are going to be most effective on issues or if they cross-developed in developing country lines. And, they become catalyst for action and to try to give general guidance to others going through including on WTO issues.

Climate changes and (inaudible) I forget if Gordon tried to just push this one, but I think in a little later there was some effort to bring climate change into the discussion. At first China resisted and, in part it goes to the point that Pascal mentioned to say look this is a U.N. forum we don't want to take it out of the U.N. forum.

But, interestingly enough by the time of the sole meeting China had switched to realize, well we could have a discussion here as long as we don't make the decision here if it helps prod along a process. And, this is the second part of legitimacy which is effectiveness. And, this is I think critically

important because very often the discussion is who's at the table so on and so forth. If an international grouping doesn't do things I'm afraid at the end of the day it doesn't matter who's sitting at the table people will ignore it.

And, then connecting that to your broader discussion going forward Gordon mentioned some topics such as food price, both long terms with security, food price volatility these are items on the agenda. And, just to give you an example of how this works President Sarkozy has identified those topics. He's put them out in one framework representing kind of his perspectives and also perhaps some of the national positioning. We're trying to work across different groups to say what could be done practically? Not just with the World Bank, but with the WTO with world food program other different national programs fitting other things together.

And, I think if you look at most of the agenda going forward it'll be of this nature. Now, the Middle

East and North Africa is an intriguing one. There was a discussion at the Finance Minister's G20 a couple of weeks ago and what one encountered was even very mild language on this was blocked because you do have political differences in this group.

And, so I think my own view is that the G20 this year is going to have to deal with this issue one way or the other because it's going to be one of the big issues of 2011. But, how it works through the politics of discussing the economic recovery, safety net programs, long term investment is still going to have to be determined. So, I see this as an evolutionary process, see it as a series of networks. But, critically important it won't work without leadership.

Mr. Philip Stephens: And, presumably the G20 can't really have a conversation about democracy.

Robert Zoellick: No. But it what can it have a conversation about are things such as we're also seeing in the street in the Middle East and North Africa which is social accountability. All successful developing

countries one form or another whether they're democratic or authoritarian figure out some way to engage their public. It's not a top down process.

They can have discussions about the appropriate governance or anti-corruption systems. You can have appropriate, discussions about how you engage the community in a development process. And, you can also have discussions about some economic topics. I mean, if we combine the concern that Gordon and I've talked about, about rising food prices with the transition process in North Africa looking at, for example the fact that Egypt is a major wheat importer. And, looking at the fact that its subsidy program to provide bread to about 85 percent of the people you got a problem on the horizon.

Mr. Philip Stephens: Okay. so we've had some very, rich contributions. G20 is a good thing, but it's got a way to go like I could ask half a dozen questions, but I'm going to stand back and let you ask questions make point, make arguments, debate. You

don't have to agree with our panel. You don't have to agree with each other. So, who would like to kick us off?

Barry Eichengreen: I'm Barry Eichengreen from the University of California. My question is about effectiveness at the center of the G20 process this year is global rebalancing. There is a development of a set of indicators and pure review process and so forth and so on? What should make us think that the big countries involved in this process the U.S. and China will pay attention much less change their domestic policies? And, if not how can the process be changed to make that happen?

Mr. Philip Stephens: I'm going take a couple more and then come back to you if that's all right? There's one at the back over there and then one just, okay.

Charles Grant: Charles Grant from the Centre for European Reform in London, nobody said very much yet about China. Although Philip is right to say it's a great panel, but it would have been even greater to

have a seemingly Chinese policymaker there. China's foreign policy is worrying many people, creating problems and anxieties in its neighborhood.

But, in terms of its commitment to global government my question to the panel is it playing the game more and more? Is it playing a more constructive role? Is it accepting strong rules based institutions? And, do they see a positive trend on China and global governments?

Mr. Philip Stephens: Okay. I'm going to take this lady here once we get her on mic. And, I know there is someone back there. It's okay.

Assia Bensalah Alaoui: Assia Bensalah Alaoui Professor of Law and Ambassador at Large of Morocco, you have said that the G20 is about leadership. But, this leadership has to be inclusive and specially speak for the voiceless. We have seen that in North Africa the pressing reasons are as social economic as the demand for democratic participation and we see now Tunisia and Egypt in danger. So, do you think that

there is no road for the G20 to come with massive effective support to see democracy emerge? Otherwise, it is a risk.

Mr. Philip Stephens: The gentleman next to you and then I'm going go back to the panel, but I know I've got one there and one there.

Bahadir Kaleagasi: Thank you my name is Bahadir Kaleagasi. I am from TUSIAD, Turkish Business and Industrial Association. When the first G20 meeting was about to be held I remember that cartoon in the International (inaudible) showing all the leaders around the table and Prime Minister Gordon Brown opening the session and saying that "Dear colleagues now we have a choice between, uh, more government or much more government?" Now, of course, the time change, the time changed or the crisis is not now, all over divert in some G20 countries.

There is a different situation. Meanwhile, back in my country in Turkey, we are out of crisis. There's good growth and we are ready to re-launch our new

membership process. In other countries there are different situations. And, meanwhile, your government also took the initiative to include a business time action to this G20 meetings in again, in a meeting in London. And to shout, started to participate to this platform to represent the Turkish business committee. And, the last G20 meeting in Seoul was also a scene for an interaction between the business committee's of the G20 countries and the political leaders. So, now are we coming to a situation where we can start to talk about a choice between more business and much more business. Can we really now, maybe in all this international settings, not only in the G20, but in the WTO and in other settings, can we head towards a more global or worldwide business issues to really introduce maybe a new consciousness of being part of global economy, also with more global entrepreneurship and global exchange of technologies and can G20 play at all in this? Thank you.

Philip Stephens: Okay. So there are four very good, diverse questions from whose going pay attention to these indicators, to China, to the business. A very important dimension. And equally, shouldn't the G20 be doing now for the Middle East and North Africa what one General Marshal did for Europe half a century or so ago.

I don't think you all feel--you're going have to answer all of them but I'm going make sure that they are all answered in one way or another. So I'm going start with Pascal. Pick a couple of those questions and give us some answers.

Pascal Lamy: Let me take the effectiveness and the China question. On effectiveness--and I won't go back to what both Bob and I said on the fact that the G20 is one element. And the effectiveness, which we have to look at the effectiveness of the system at large, not just the effectiveness of the G20.

These issues (inaudible) balances and how can you address them is a typical problem of international

corporation. If you're a national leader, the questions is how much of the problems of the others will I factor in my own domestic economic policy? And the virtue of the G20, as, by the way, the virtue of the former G8, who's a corpse in waking of a funeral, the virtue of the G20 is to print this question as often as possible into leaders' mind.

Okay. They are accountable to their domestic politics. The G20 creates another sort of accountability. And I think what's been done since the sale on the multilateral surveillance process will lead to better discussions. Not these because you will have entrusted a third party, which is the IMF, to report on the evolution of these numbers.

A discussion about the numbers is very complex but you will have triggered a system where there is a sort of transference monitoring surveillance, which is the beginning of international governance. So it will take time. Of course, countries around the G7 table on the finance are fighting like dogs, that I want this

indicator because it's good for me and I don't want this indicator because it's bad for me. So there will have to be a compromise but I think it's a good start.

On China, let me just take two examples. The Chinese liked when Bob was in another position and he coined this notion that China had to become a stakeholder of the international system. They liked it. They profoundly disliked the notion that there would be or should be a G2. So I think this gives a sort of frame within which the Chinese Operate.

They recognize that where they are now, they have become major stakeholders but they don't want to be seen as a sort of a U.S. like country that dominates the planet because of its hyper-power. And, of course, what many people still do not realize is that China is a huge developing country. And that China faces the challenges in big, big, big style of what many smaller developing countries have to face in social problems, in development, in regional balances, in poverty. And that's what inevitably drives a large part of their

agenda, plus the fact that, like India, like Indonesia and like Mexico, the G20 style of diplomacy is not familiar to them.

This sort of hybrid diplomacy between--which is not multilateral UN like, their power systems are not geared to that. The notion that you have a Sherpa in the Chinese system, that there is one person that speaks for the President, that will say what the President will say and the President will say what the Sherpa has said, is something--

Philip Stephens: Okay.

Pascal Lamy: --which is unknown to them (inaudible).

Philip Stephens: I've got to move on now. Gordon Brown, how did you find dealing with (inaudible) Tao when you were putting this together and do you think these cultural and different institutional approaches, we can get over those? And also, then, please do address some of the other questions.

Gordon Brown: Well, I think you've got to look at what's in the interest of China, what's in the interest of America and what's in the interest of the major powers, as well as the smaller countries in the world. And we're really approaching a new test of international economic cooperation.

You cannot imagine a solution to the problems that North Africa and the Middle East face without some international support and international cooperation to back them up. I cannot imagine that the world is going to grow and solve the unemployment problem we've got without greater international economic cooperation. So the question is, can that happen?

Now, what the IMF did was, at the request of the G20, draw up, what is effectively, a growth plan. And they argued that if China was to increase its consumption faster and if America was to rebalance its public consumption and public investment, and if Europe was able to do economic reform that would tackle its unemployment, then the world economy would grow by four

percent faster by 2014. And you'd have 50 million more jobs, I think was the figure.

And therefore, the basis of international economic cooperation, in terms of their being winners, China winning and America winning and Europe winning is actually there. And it's a question then of whether there's a political will to see it through. Now, what are the difficulties? One is there is no natural constituency for global action.

People, in their own individual countries, when they see a problem, expect politicians to be able to solve that problem at a national level. And most politicians appeal to people on the basis that, I can solve that problem. Indeed, they redefine the problem so that it is a national problem, so they can give the impression that they can solve it. And that's why, all around the world, deficit reduction has become the issue, when actually, it's only one of the issues and the bigger issue, perhaps, is growth and employment.

The second thing is, of course, the public tends to become protectionists in a period of crisis. And therefore, whether it's in America or whether its anti-immigrant parties in Europe, people tend to retreat into their national shells.

Thirdly, with due respect, I think a great number of business leaders are global in both their outlook and in their attitude. But as a constituency, business does not press for global, international action, for fear that may mean global regulation.

And then you've got ideological divisions between your politicians. When you talked about more government or much more government as the ideological division at the G20, it reflects that there is a right and there is a left in world politics, as well.

So the question is given all these difficulties that make global cooperation really very difficult indeed, can you overcome them by showing the benefits of global cooperation? Now, I think you can, in terms

of the economic benefits, the trade benefits, the prosperity benefits and the employment benefits.

And I think, if the G20 and the organizations around the G20, which it marshals together with some effect at a period of crisis, cannot come together to deal with these problems that we face now, then the disillusionment within international cooperation will become so great that you will be into another period of protectionism. So it is a real test and there's an urgency about this because there are huge problems in the Middle East that we can play a part in helping with.

But equally, there are problems with food prices, youth unemployment and actually, low growth in Europe and America. All of which, in my view, is avoidable. We are going through, for Europe and America, a wasted decade if we don't take the sort of action that I'm talking about.

Philip Stephens: Okay. Bob Zoellick, a colleague from Morocco, says, you know, G20 should really--we're

at a pretty historic moment here. The G20 should be doing a bit more than sort of nodding in the direction of North Africa and the Middle East. It should be galvanizing a global economic response, development response.

Robert Zoellick: Yeah, I want to take on that one and a couple of the others. I do think the G20 can and should play a role in this. I think it's much more than money. There are some critical policy issues here and indeed, one of the dangers is just looking at the short term. We're going have to look at short, medium and long term. There will need to be some short-term support, particularly to avoid some of the dangers in the transition period.

But some of the underlying problems, the youth bulge, the fact you got a bloated public sector in a lot of these countries, unless you also get at those at the same time with some medium and long-term efforts, you're not going be able to be successful.

So I think that also needs to be combined with one other thing, which we talked about, which is what's happening in these countries. The public is engaged in the economic policy, so we also need to have some aspects related to social accountability, the governance, how this is connected to economic policy.

Twenty years ago at The World Bank, you couldn't use the word corruption. It was political. Now, it's an integral part of everything that we do. Well, similarly, some of these social accountability issues are going to be seen as political to some people, but they're going to need to be part of the development process.

Coming to the question about, um, rebalancing. The indicator's discussion in some ways is a carryover from the initial debate about the role. And it's one of these things that has to be done, it takes too much time, you know, it spends endless negotiations on a few words, but it partly sets up the system for the future in the review.

But the key discussions that go on at that table are really going to have to lead to national decisions, and nobody should pretend that it's going to be any, otherwise. Do not underestimate, however, the fact that those discussions can influence national decisions.

Keep in mind, governments aren't unitary things. You have different people in governments with different perspectives. You have different people in the countries in perspectives. So, for example, the Central Bank in China may have a slightly different view on currency appreciation, given its concern about inflation than others do.

But on the fundamental issue of restructure and rebalancing, it's going to be a question of China, which has already said it wants to move towards a greater amount of consumption than savings. It, however, tends to believe less in the market signals and it believes it needs to make some of the structural changes that

are in the five-year plan. The U.S. has the reverse problem.

But if you want to give an example of how creative people could use the G20, one of the things that I wrote in his newspaper in advance of the sole summit, was the fact that If you had the U.S. and China show up at the G20 and both pledge a series of actions, in the United States case to deal with some of its rebalancing issues, in terms of budget deficit and savings, the Chinese, some of the structural aspects, that would send a signal on both substance and cooperation. So that's where you try to connect these together.

On China, Charles Grant's question. Very important and I want to--because you talked about foreign policy. My experience has been, in the economic area, the engagement as stakeholders is actually pretty well developed. And a lot of it depends if you can learn how to work with the Chinese system. And let me give you a practical example. In the past year, we had to do another commitment for IDA, the fund that we raise

money for the 79 poorest countries. Because we use grants and very low or no-interest loans. I knew that developed countries were under stress.

We talked with China, even though it's no longer an IDA recipient, it has a lot of old IDA credits out there because these run 40 years. So we worked with the Chinese to do an early repayment of a lot of their IDA credits, which added, frankly, \$2 to \$3 billion to the pot, much more than grant money.

Now, this is an example going back to what Pascal said. They were being treated differently than the developed countries. It wasn't, uh, just putting grant money in. But they could design something that shows that they contribute. But frankly, if I had just popped this out into public, I think the reaction would've been negative. If you--if you work with them in the process, you can get them to cooperate.

But there's not time in this session but the distinction you draw with the foreign policy is critical. What I see is the engagement with Chinese

officials on economic issues at the private sector or the public sector is now quite dense and networked. There's going to be disagreements as there are between U.S. and Europe. But I can see the process working its way through.

The foreign policy and security area, I'll just say those ties are nowhere near as deep or networked and they're going to need to be.

And then the last point on the private sector, I'd just say I think this is, in some ways, reflects the difference between the London summit and now. One of the issues that we talked about in London was the hand off to the private sector. And another way of viewing some of these debates that you hear in Europe and the United States is what's the right policy mix for a hand off to the private sector? Will the private sector take it? Will ongoing stimulus programs actually make them fearful that there are going to be big taxes to pay? Others will say, no, you have to continue the stimulus because, you know, they're not ready to bring

in the demand. What type of regulatory system? Sort of what set of opportunity for the private sector to come back? So this is one where I think actually the G20 has to be a little bit careful. If you're going to get the private sector engaged, of course it can't come through orders. You have to try to create the environment in which it will occur.

Mr. Phillip Stephens: Are they getting it right, Michel Pebereau? Are they creating the right environment for the private sector to be more--

The Hon. Michel Pebereau: Yes. In answer to your question about business, yes. I think that it's possible for the G20 to be very useful to create a good environment for the business sector. First of all, I think that one of the main targets for the G20 will be to try to have highs high as possible including gross, with a balanced economy. It's a very difficult task up to now because you have in one hand too much money at the river of the world and on the other hand, too high public debts and public deficits in each different

country. And so you have to find a good balance, a good coordination between the G20 and people to find a way of a more balanced gross and as high as possible a gross.

Number two, at the level of financial stability, the G20 has to take care of, well, the balance between financial stability on one hand and economy gross on the other hand. We are in a situation in which there is a high risk to have an overreaction of the regulators about financial stability. Which would have as a consequence, especially in Europe where banking intimidation is very important to finance the economy, to have the risk, to have an insufficient financing of the economy, especially in Europe. And so it's a matter of concern for everybody and it is clear that at the political level the G20 has a capacity to balance between the two targets, which are on the long run financial stability and on the short term sufficient economy gross.

Mr. Phillip Stephens: Okay. Very interesting point, getting that balance right between growth, again, and stability. Although I suspect US banks are going to struggle to win the argument about overreaction.

I've got one here, one at the back here, and one here and then I'm going to look again.

Mr. Peter Kellner: Mr. Peter Kellner from Britain. I run a political market research company called Yougov. This is question is particular for Gordon Brown and Bob Zoellick.

A decade or so after 2007, the central banks of Britain, continental Europe, and America were all pretty successful in pursuing a strategy which gave us low inflation and steady growth. Then came the crisis, the G20 meeting in London, and massive accommodation in monetary policy. My question is has the time come to return to the principles of monetary policy and tightness and flat inflation that we had before 2007? Or is there a risk that would dent growth, dent

recovery, and partially undermine some of the gains made following the G20 meeting in London?

Mr. Phillip Stephens: Thank you. One here.

Mr. Dan Runde: I'm Dan Runde, United States CSIS. Question for the panel about international development. There's a significant development track at the G20. Is the G20 a potential platform for integrating development across trade and economic governance issues? And how do you circle the issue of development in an era of new posterity?

Mr. Phillip Stephens: Thank you. The gentleman here.

Mr. Michael Hanson: My name is Michael Hanson, entrepreneur from Sweden. I'd like to raise the platform a little bit. We are putting out fires by the day and you are doing a fantastic job in that. Mr. Lamy, you were talking about leadership. How can there be leadership without visionaries? I see a complete lack of visions in politics today. What is going to happen and what are our goals for 2020? It's not far

away; it's just around the corner. But do we have any visions for what is going to happen then? And even further on? Thank you.

Mr. Phillip Stephens: Thank you. This gentleman just here.

Mr. Joao Vale de Almeida: My name is Joao Vale de Almeida. I am the EU representative in the United States and the authority of the lady sitting just in front of me. You see that I am of a strategic approach to sitting. But I would like to draw on my experience as a member of a secret society known by a Sherpa community of which Pascal is a permanent member. So I want to tell you that I was lucky enough in a G20 Sherpa to have my leaders say more or less what I said before. So our system was relatively functional. That was not a case for all my colleagues; I must acknowledge this, as Pascal was saying.

Two comments and one question, if I may. The first comment is to say that the G20 was to a large extent inspired by the transatlantic leadership. Even before

London and Washington it was basically the Americans and the Europeans that drove this process. And I think this should be acknowledged here. Secondly, my last meeting of Sherpa preparing a summit was before Toronto. And I must say that I left the G20 process worried. When we began in Washington and London we were saying basically, "Your problem is my problem and that's why we're here together." What I heard from some, which I will not identify, before Toronto was, "Your problem is your problem. You take care of that. I don't want to be bothered by that." And I thought this was a worrying development. So my question is do you share my concerns and, secondly, do you believe that a transatlantic leadership is still relevant and necessary?

Mr. Phillip Stephens: Now, we've got just ten minutes left in this session so I'm relying on our panel to be jotting down the questions that they want to answer. Because I'm going to take two more and then we have to call it a day. So there's this gentleman in

the middle. That is, this one here. And then the gentleman behind. And then I'm afraid I have to call it a day.

Mr. Muhammed Abdel-Shakour: Thank you. This is Muhammed Abdel-Shakour from the (inaudible) in Egypt. I just have a small comment and a question. The comment is why do I have the feeling that either we talk about the representation at the G20 and the global governors? I feel that that governors is not a real democratic one and not a real very well represented one. I mean, if I see it from a Middle Eastern point of view, I don't consider Saudi Arabia as a real representative of the situation there, especially after the revolution. The question is before the revolution and into southern Egypt, for instance, but at the first rank in doing business with the World Bank as the biggest economic reformer, and it got a hundred million MTI into Southern Seven. But that doesn't have any trickle down effect into the people. And the whole bank initiated the Arab Bullet Initiative before the revolution and

launched it in the Arab Summit. My question is does all that kind of policies and outlook into the Middle East economy review then reevaluated is the Arab Bullet Initiative, for instance, still in the same structure and point of view that was before the revolution and the reform and the spring started? Thank you.

Mr. Phillip Stephens: Thank you. The gentleman just behind and then we're going to come back.

Mr. Dan Price: Thank you. My name is Dan Price and like my friend Joao, I took belong to that society of Sherpas formerly. And my question is this. I quite agree with Joao that the first two summits in Washington and London were crisis summits and so the unity and common purpose that was born of the pressures of the crisis manifested itself in those actions. Pittsburgh was already transitional from crisis management to macroeconomic governance and so question to the panel is what is going to supply the glue and the urgency for common purpose once the G20 assumes the role of macroeconomic governance rather than crisis

management? And one particular question to Gordon Brown and Pascal Lamy. Mr. Prime Minister, you were an advocate of direct leader involvement in the Doha negotiations. I was on the receiving end of that. I remember very well. And you will also recall that President Sarkozy, President Calderon, and President Lula at the first G20 summit advocated direct leader involvement in concluding the Doha negotiations. Pascal Lamy has said leaders have no business negotiating tariff lines. That may be. On the other hand, when leaders just say, "Let's get it done," it doesn't happen. So what is the role of leaders in completing the round? Thank you.

Mr. Phillip Stephens: Thank you very much, sir. How many people haven't been a Sherpa in the room? It's a large number of questions there. Just to take a few of the thoughts. Do we need glue, as our last speaker said? Or do we need vision? Have we taken our eye off inflation? Does the transatlantic motor still operate? I'm just going to go this way across the panel and

invite you to pick one or two of those issues to wind up. So Mr. Pebereau.

The Hon. Michel Perebeau: So perhaps the issue of imbalance is at the level of monetary policies. I already consider that there is a necessity to come back to no more monetary policies. But the question is to know at what moment, of course, and it's not so easy to decide. As you know, we are in a period of time in which all difficulties appear quite every way. Well, there's a disaster off of Japan, problems in the Middle East, North Africa. Every day new problems. And so my feeling is that the main issue today at the level of the G20, of one of the main issues, is to stay committed at the level of the necessity of good coordination of economic and monetary policies worldwide. Because we are always in a situation in which it's possible to create new bubbles in markets. And with new bubbles, new problems. We are in a period of time when investors worry about the situation of some public debt worldwide. And so there is a necessity

to have a very close cooperation between governments at the level of the G20 to make this situation as under control as possible. So my feeling in that of the field of monetary policies, it is very clear that we are out of the way of classical policies. I have mentioned that we create too much money at the level of the world so we will have to re-control. But the question is at what moment precisely?

Mr. Phillip Stephens: Thank you. Pascal Lamy.

The Hon. Pascal Lamy: Should the G20 have and keep a development agenda? My strong answer to that is yes. And I think we owe it to U.K. at the time and still today and to Korea that there remains a strong development agenda for the G20. Development is a global issue and will be more and more of a global issue. So that's, I think, absolutely necessary. And whether you look at what needs to be done in the investment, what needs to be done in environment, these questions cannot be disconnected from development.

Lack of visions. There's no shortage of visions 10, 20, 30 years from now in many national organizations. The problem, to be frank, is that not many of these G20 leaders are interested in this. Their horizon is not 10, 20 years. There were a few exceptions and one of these brilliant few exceptions is sitting with us today. He probably would not be sitting with us today, by the way, if he had remained Prime Minister. I mean, Gordon is a very specific case and he has always, you know, he's the sort of guy that would ring Bob, that would ring me and say, "Oh, I have this problem. What do you think about this? Can you give me a paper?" An exception. And, you know, that's your problem. You elect them.

The Hon. Pascal Lamy: On the price question, which is what can leaders do to conclude the DDA, again, leaders will not negotiate tariff lines on plastic bags against the tariff lines on PVC. What leaders can do is tell the negotiators go solve this problem, find a good compromise; I'm ready to take a bit of risk with

my chemical industry. Lobby. By the way, both in Washington and in Beijing and the chemical industry lobby in Beijing, as some of you may know, is not a small thing. Its two huge things which are called Sinopec and SynChem. So that's what they can do. Of course they're not going to negotiate the tariff lines. But they can give the cover. And for the moment, they haven't done that.

Last point on this. The logo of the G20 should be the title of a book which Putnam, who was the best specialist of summitry in the '90s published, at that time a book which was titled *Hanging Together*. That's what should be on the table of the G20. That's what people should have in mind. That's what is it about. They hang together and whether they find collective solutions or not will make a huge difference at the end of the day. But that's, I think, the sort of spirit in which they've been working and they have to keep working.

Mr. Phillip Stephens: Thank you. Robert Zoellick.

The Hon. Robert Zoellick: There was a question on monetary to me and I would just say caution number one, you mentioned the period before the crash as being a good one in terms of inflationary discipline. I think one of the lessons is maybe not so good in terms of asset price inflation. People were always focusing on goods inflation. I don't mean to suggest this is easy, but one of the lessons is going to be how you manage asset price inflation as well.

Second, I do a lot with developing countries so part of the problem with this whole issue that we've been touching on is we have multispeed recovery. Reemerging markets are already quite recovered, growing fast, if anything, their problem now is overeating risk of asset price inflation, bubbles, and perhaps boom bust. So frankly while you can't generalize across all of them, I think they better darn well be thinking about some of the aspects related to monetary policy along with currencies and other types of financial policies.

As for developed countries, nice try. I'll let Gordon deal with that one.

On the integration of development through the G20, keep in mind one of the big plusses here is we now have a lot of developing countries around the table so they're very, very interested in this. And the Koreans, to their credit, helped move this forward. You talked about can the G20 integrate this. I think just to give you some examples, this trade finance is a good example of how there's an issue dealt with banking or dealt with development, a series of aspects, and you could use some of the contributors to help advance the agenda. And by the way, it's not done. Because, as Pascal and I both identified, I think the Basel III capital requirements for trade finance don't make sense. And we brought this to the attention of the Basel people. They're now going to try to overhaul it. I think this is one other lesson, by the way, with the whole banking supervision area which is build in some

feedback loops because nobody's going to get all this right the first time.

More specifically, sub-Saharan Africa, an issue we've been discussing with the French. I think we could combine some aspects of infrastructure development that could also fit very well with the trade site. So this is a good way in which the G20 could connect them.

You asked a little bit about the funding. Keep in mind, about half of global growth now comes from emerging markets. So one of the funding sources is we have to get beyond the north-south model to be thinking of south-south and even south-north. And by the way, a lot of the funding is going to come from the private sector. So how do you create the environment?

The question, third, on Egypt and the Middle East. This bears a longer answer which I don't have time for now, but number one, keep in mind there were some things accomplished. If you look at things of infant mortality, child health, some of the growth statistics, there were advances in Egypt as well as some of the

other countries. But the key lesson is that it wasn't enough. There was a partial modernization process. The system was too sclerotic.

And as do we and others need to learn from this? Of course. I mean, the idea that you'd keep your policy on autopilot in this context would be crazy. But let's take this one step further. What are the first things that Egypt is doing? They're doing what they did in the past. They're increasing wages for everybody and they're increasing generalized subsidies and they're going to blow a hole in their budgets. And we're going to have to get through that period but now we can actually take some lessons from other developing countries like Mexico and Brazil that have actually had very effective targeted safety net programs for about a half or one percent of GDP.

Second, jobs. This is where the economists often stumble. Economists hate short-term job creation because they think that if often isn't lasting. We at the World Bank have had some experience now where if

you create some public sector jobs so as to avoid a social explosion but do it in a way so that you watch the wages so they don't interfere with the private sector, maybe build some other skills, you might be able to bridge that gap.

Third, I know there's some concern in some of these countries that says, "Oh, look. We don't have time to take measures to deal with regulation and other things." They're going to have to take time because, remember, it was a street vendor who was overregulated in Tunisia that set all this off. And so we have to try to figure out how we can at least start to send some signals about small business, entrepreneurialism, and other issues.

But I keep coming back to this point about social accountability and governance. We worked with the Egyptian government on developing a Freedom of Information Act. There were some reformers, as you know, that were trying to push this through. Others didn't. I think part of the way we can connect the

politics with the economics in this is trying to take some of these lessons, whether it's democratic or not about better governance and social accountability, community development programs so the local communities get the financing. So I think there's a lot of steps that we could take.

The last comment on the G20 is this. Keep in mind, these meetings need to focus on different stages. So, for example, I believe that I made the point about putting food first. I think the food price issue is going to be both a short and a medium and long-term issue. I think there's a lot of things that can be done. Take international monetary system. I don't think that the international order is ready for a big boom but I do think we could make some changes in the framework that might actually plant the seeds for the future. And I also wrote these up in your paper.

Mr. Phillip Stephens: Thank you. Gordon Brown.

The Hon. Gordon Brown: I think the international attitude presented by all these questions makes me

hopeful about global cooperation for the future. And I'm not one to criticize Sherpas because I think Sherpas have kept that global cooperation alive, sometimes when politicians have lost interest.

And you know what they say about politicians. It was very true of me at the last election. It was said by Shelley about his mother-in-law. She'd lost the art of communication but not, alas, the gift of speech. And that may be what you think of some of the contributions that politicians make to international economic cooperation because my thesis is basically this: that we are retreating into national silos at a time when international economic cooperation is more needed than ever.

And look at Africa, which has been mentioned. Africa, 15% of the population of the world rising to 20% of the population of the world, but roughly speaking only 1% of the investment of the world, 1% of the manufacturing of the world, 1% of the wealth of the world, 1% of the middle class of the world. That is not

a sustainable situation given the rising population of Africa, particularly the rising population of young people. And it cannot be solved without international economic cooperation bolstering those governments in Africa that are prepared to make the reforms.

And take the Middle Eastern North Africa. Youth unemployment is at 30 or 40% in some of these countries. When it dies down as a protest and they start having to elect new governments, and these governments are incapable of solving these problems of unemployment and economic development, you will have further social tensions unless we can find a way of supporting these new governments in creating jobs for the future.

Now, as I see it, and people asked about vision, what's going to happen to the world economy over the next 10 years. You've had this massive productive power shifting to Asia. You're now going to have this massive power of consumption shifting to Asia. You're going to have a rise of a global middle class but it's not just

European, American, but principally Asian in terms of its numbers. But large numbers of people around the world are going to feel excluded and it's not just Africa. It's people where there is growth but no equity as in some countries in Asia as well. And large numbers of people are going to feel excluded in Europe and America because it looks as though unemployment is going to remain high and growth is going to be about half the rate it used to be in the last 20 years.

Now, can you bring people together with such a common cause that international cooperation can make for a world that is better than without it? And my answer is clearly yes. I don't think we've begun to deal with the problems that arose from the international banking crisis in terms of long-term solutions. I don't think the global stability board will come up with the answers and it certainly will not have an early warning system without a further ability on the part of politicians to accept that you need global standards and not just national standards.

Implemented nationally but global standards. I don't think we've exhausted the potential for coordination to deal with the imbalances around the world and particularly with the likelihood that Europe and America will not grow fast enough unless there is greater international cooperation with an Asia that is prepared to consume more.

But these seem to be problems that are soluble with political will. I mean, our objectives are growth, equity, and environmental care. It's a trinity of economic objectives. These can be pursued within international forums. It doesn't need one organization but a set of multilateral organizations. The problem at the moment is what someone has called "minilateralism". There is too little international cooperation at the moment to justify us being able to say we are seriously dealing with the problems like food crisis, like energy, and like the problems of poverty and inequality that I've discussed.

I think we should be far more optimistic about our

ability to do these things, then press whether it's by global public action pressing our leaderships, or our leaderships themselves taking the action so that some of these problems which are clearly capable of international solutions and clearly in business' interest that we begin to solve are actually firmly on the international agenda in a way that people just don't sit around and talk about it, but actually have to come to agreements and make decisions and then implement the decisions in their own regional area.

So I'm optimistic if we can get that political will and I think the potential exists for that cooperation but it is not being explored in the proper way at the moment because people are tending because of protectionism to retreat into their national silos.

Mr. Phillip Stephens: Thank you, Gordon Brown. And I think this has been a tremendous conversation. I was going to say that we produced a full agenda for Nicklaus Sarkozy for the rest of the year. It did occur to me that the President of the Republic doesn't

usually let other people write his agendas, but let's hope we can be an exception.

I think we should thank our panel, all those who contributed.