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H. ANDREW SCHWARTZ: Good morning and welcome to the Center for Strategic and International Studies. Thank you all for coming this morning. We have a lot of ground to cover with the U.N. General Assembly and with the G-20 in Pittsburgh next week. And I know everybody has interest in both.

And with that, we have our colleagues here: Jon Alterman, our Middle East program director; Steve Schrage, our Scholl Chair holder in International Business; Heather Conley, our New Europe program director, who all of you will be very happy to meet – she's fantastic; and Charles Freeman, our China Studies Chair. So with that, I'd like to turn it over to Dr. Alterman, who's going to give some opening remarks about the U.N. General Assembly, with a focus on the Middle East. Thank you.

JON ALTERMAN: Good morning. It's a pleasure to see you all and to see some of you in the flesh who I normally only either talk to on the phone or read in print. That's you, Tom, among others. It's funny because the United States doesn't need an event like the U.N. General Assembly to think about Middle East issues. There are some times when you need to convene people to get issues on the global agenda, but when it comes to the Middle East, the issues are already on the global agenda.

But it seems to me, as we think about the issues that are on the global agenda, there's an important difference as the U.S. approaches the U.N., and that is the issues where the U.S. wants to negotiate in public and the issues where the U.S. wants to negotiate in private. It seems to me that on the Arab-Israeli issue, the U.S. wants to and the U.S. needs to negotiate in public. There's a perceived need for the U.S. to visibly be involved making progress on Arab-Israeli issues.

I personally am convinced that what appears to be a rift between the Obama administration and Prime Minister Binyamin Netanyahu will be resolved in time for a three-way meeting on the sidelines of the General Assembly meeting. My reading of Israeli strategy is that Prime Minister Netanyahu wants to give concessions to the president when he needs to give concessions because Prime Minister Netanyahu is very skeptical about the strategic environment, doesn't think the Palestinians can make a strategic leap, and therefore doesn't want to be pressured into making strategic concessions on the Israeli side for fear that they won't be reciprocated.

So I think what we are seeing is Prime Minister Netanyahu feeling that he still has time, the Obama administration feeling they will need settle for something to make this happen, and the Palestinian side – President Abbas – being willing to accept something that represents progress and being willing to continue what has been a slow and gradual improvement in living conditions on the West Bank, with still much more to go. A lot of this is about publicly engaging; it's about demonstrating the U.S. commitment, demonstrating U.S. engagement, demonstrating the U.S. is putting forth effort.

It seems to me, the flip side of this is actually the Iran situation. Because with Iran there's not very much you can do productively in public. Iran – the issue is, what assurances can the U.S. get in private? Where are the Russians going to come out on sanctions? Will the Russians support the U.S. view? How far will the Russians go? Will the Chinese be there as well? And my presumption is they will. Where are these meetings going to go on October 1st? And can we keep the Iranians on topic, and what will be the range of issues? All those things are usefully done behind closed doors, not in public. And I think a lot of the public issues will be about framing solidarity, but not in terms of actually making progress.

I think what all this also highlights is perhaps the obvious point that the president needs to convert his widespread popularity in much of the world into effectiveness in much of the world. Leadership is not just telling people what you want, as the Bush administration discovered; leadership is getting people to do what you need them to do. And the challenge for President Obama is to create and environment where the U.S. is not only seen as having an attractive leader, but the U.S. is seen as setting an agenda which the world is willingly following.

The results of that aren't going to become apparent in New York; they're not going to become apparent in Pittsburgh. But certainly, what happens over the next three to six months will be heavily influenced by what happens in New York and Pittsburgh, and I think to a great degree, leaders around the world are watching to what happens in the health-care debate to see, is this a president who can firmly lead and is firmly in command, or is this a president who can be defied with impunity?

So I think the stakes are not just in these meetings, but the world with its ties to CNN and all the wire stories that you write, and everything else, watches the U.S. domestic debate to determine how it's going to approach international affairs. And therefore I think we're seeing this almost merging of the domestic and international realms. And what is happening in Washington, in the absence of the president, will have an influence on how well the president can do when he leaves Washington to go to New York and Pittsburgh. Steve.

MR. SCHWARTZ: I agree with all that, except for that the world is focused on watching NHK, not CNN.

MR. ALTERMAN: (Off mike.) You just lost three viewers at NHK!

STEVEN SCHRAGE: Well that's a good segue, talking about Middle East peace and they need to kind of move from broad talk to action, in terms of the G-20. And I just wanted to flag for you, too, you're all very welcome – we're hosting a first ever Sherpa Summit in the afternoon from 1:30 to 3:30. We're going to have the U.S. sherpas that launched the G-20 last year, the former finance sherpa for Larry Summers and Bob Rubin, along with several others sherpas and ambassadors, including the former prime minister of Korea, who will be – in Korea – will be chairing the G-20 next year, the ambassador from Japan, who chairs APEC, and the Italian ambassador, who obviously chaired the G-8 this year. So you're all welcome to that and I think going to also be up on the CSIS Web site afterwards.

But in looking at the global economic crisis, it's really dominated President Obama's agenda and the world leaders' agenda from the start of his presidency. It thrust him on the global stage, first at the London G-20, and through many summits after that. But what's really going to be different about Pittsburgh, and what will make it a defining moment, is that this will be the first time the ball is really in Obama's court.

And I think he's taken the initiative to call this meeting and set the agenda, and now really has a responsibility as the world leaders, but also workers, everywhere from Pittsburgh to St. Petersburg, that are struggling to keep their paychecks, are looking for real solutions and a real way forward to a sustainable global economy.

And while the health care is really dominating the U.S. coverage these days, I think, as President Hoover learned, if you fail to address these economic crises – if we don't take the actions now that lead to economic stagnation or even worse, set up the stage for a financial crisis 2.0, that will likely be how President Obama is remembered. And I think many of his team recognize that very strongly, but also recognize we're dealing in a much more difficult situation today, where it's not just what the United States does, but things that happen all over the globe that can ripple through and disrupt the U.S. and global economies.

And I think there are three huge challenges that I'll briefly touch on today, that I think they're grappling with. One is getting concrete economic results, both out of Congress and legislatures internationally, which I think gives a whole new definition to herding cats at different times. Then you've got what I've called the G-question mark. At this point, we're not even sure there's going to be a G-20 summit next year, and what's going to even steer these different key challenges. And then finally, what is the biggest threat to international economics and security at this time, which is domestic politics, not only in the United States, but globally, and particularly the focus on them during economic downturns.

So quickly going through those three, economics – I think the president and world leaders, particularly Ben Bernanke, deserve a lot of credit for staving off a potential next Great Depression when it looked like the economy was going over a cliff this year and last year. And they've done this through a massive binge of fiscal and monetary policy – a real show of force. But the morning after this binge, the bill comes due, and it's going to have its own complications, and there's real questions we're going to actually address the things that set the stage for the crisis going forward.

So I think that's going to be a great challenge. And the next global economy is the big question; what is going to look like? And it's the big question, but one thing we can be sure of is it's not going to look like the last one. U.S. consumers were 70 percent of our economy. They've taken massive hits to their housing wealth; they're overextended on credit cards; 40 percent of corporate profits in last years were from the finance industry. China built a massive surplus, you know, selling DES (ph) partially through subsidized currency and other things that I think Charles can talk about.

So this is the environment that's been facing the G-20, but there are still many systemic risks and the question is, are we going to address them? I think the G-20 and their leaders have some important things. I mentioned the fiscal stimulus and the overall monetary policy provided billions of dollars to the IMF, trade financing, other initiatives to weather the storm. And I think one of the big things we'll probably see in Pittsburgh is agreement on new capital requirements for financial institutions, which I think the White House has prioritized.

But on a lot of the other major issues, it's been dominated somewhat by political conflicts, maybe a political sideshow on this capping bonuses and how that happens – you know, which, compensation is important but that's not going to drive economic growth or recovery. It may help prevent future crises. And a lot of these issues are stalled in G-20 leader statements, where they make statements that everyone can agree to, but there's no real clear way forward in terms of concrete action.

And we've avoided a trade war so far – I know Charles will probably touch on this some more – but you look at the G-20 commitments on protectionism, by the second meeting, 17 of the 20 had violated. Now we have U.S. actions against tires that have sent tremors through the market. And the Doha round is, for all intents and purposes, at least comatose if not dead, despite all these attempts of world leaders to provide EKG shocks to bring it back to life.

So we've weathered some of the storm but we've got a long way to go, and coordination is going to be important. But we don't even know what's going to happen next. Like I mentioned, 2010 is a couple months away and we don't know whether there is going to be a G-20 summit. And I think it would be a devastating blow to the credibility of the G-8 and G-20 if Korea, the 2010 chair, was not allowed to host a summit.

After we said we'd broaden this to the G-20, if the outcome is that the old boys' club of the G-8 are the only ones that can host summits – especially when you look at Korea that has had such a dramatic story, going from a developing nation that was very impoverished to an emerging power, responding to open trade after its own financial crisis and really leading a lot of these efforts on green technology and other things.

I think there has to be a Korea summit, and I believe there will be one, but it shows these archaic, fossilized, Cold War, 1940s-era structures struggling to adapt to the new world. And will the IMF and World Bank reforms they can call for really change? And we're seeing a lot of tensions with world leaders, like Russian President Medvedev and others, talking out about how there's been a lot of talk but no real action. And we may need to look at new dynamic structures or new ways forward if these can't evolve.

And then just quickly and finally, the political dimensions of the domestic political debates in the U.S. and globally may be the biggest threat to economic recovery and also to security. As U.S. workers have struggled to find their jobs, the importance of global issues has plummeted. Now I think the economy and jobs is 58 percent of what most Americans rate as their top problem.

We've seen that around the world, people are questioning whether this pomp and circumstance of these summits really delivery anything. I don't think it's any mistake that the last summit and this summit were moved to an earthquake-ravaged town and to an industrial city in the United States, away from glitzy resorts. So we're going to see a lot of questioning about whether these are actually getting results after all these different summits.

And the key point is we have to make sure that in this interconnected world, as the two defining events of the century, 9/11 and the financial crisis showed, America really can't walk away from the world; we're interconnected on these issues. But are we going to repeat the mistakes of other downturns, including the Great Depression, where world powers like the U.S. and U.K. walked away from global responsibilities, and ultimately the situation got far worse than even the economic situation at that time would have indicated?

So I think there's a whole lot on the plate. I think the Obama administration has started tackling these issues and I think they deserve credit for taking initiative. I know Heather and Charles are going to have a lot of great perspectives on some of the dynamics between the different nations involved.

HEATHER CONLEY: Thank you, Steven. I'm going to echo many things that Steven touched upon. But from a European perspective, the road traveled from London through L'Aquila, now through Pittsburgh over the past five months has reflected great European photo-ops with the president, great statements, great public speeches, but there's been very little concrete action.

And five months through this process, there is a growing disquiet in Europe that the Obama administration is unable to take action on many of these fronts, and certainly, on two issues that the Europeans are most significantly seized with: climate change and really seriously restructuring the global financial regulatory system.

Just a quick word on climate change and then I want to dive a little deeper into the global financial pictures: On climate change, the Europeans privately are utterly disappointed at the lack of movement and action. When Chancellor Angela Merkel was here at the end of June visiting with President Obama, it was fortuitous when the Waxman-Markey bill had come forward.

The Europeans were, again, very strong and encouraging, this is a great place to start, but more needed to be done. They're very disappointed that the Senate has not taken action yet; they had hoped that U.S. leadership on this issue, and with the change of position on climate change in general, from the Bush administration to the Obama administration, would drive more concrete results.

And they're growing increasingly concerned, watching our domestic debate, that there's just not going to be enough time and space devoted to climate change to provide anything meaningful to bring to the table, to the Copenhagen climate conference in December. Europe believes it has taken and staked out a strong leadership position on reduction of emissions. It thought the United States would be more closely following its line. Again, they will continue to push it but I'm starting to hear the growing sense of disappointment and clashes on, particularly, reductions of emissions.

I think there will be much more robust dialogue on financial regulatory reform from Europe. Europe is really going to focus on three issues: the so-called bonus caps – and Steven, I loved your comment on the political sideshow because for Europe, this is not a political sideshow, this is a populist measure; they believe that the financial crisis was, in large measure, created by the United States in the United States by "greedy bankers." And I put that in quotes because that's what Angela Merkel has been saying on the stump as she is campaigning across Germany.

This is very serious. Last week, Gordon Brown, Nicolas Sarkozy and Angela Merkel sent a letter outlining their very strong views on capping executive compensation; they want agreement on this. And today the E.U. just finished a summit; we're still getting those results. But the E.U. is even more strongly behind seeing very rigorous requirements on these bonus packages. So while we understand that Secretary Geithner may want to focus more on capital reserves and moving that forward, I would suspect that the Europeans are going to hold very strongly to that. I think you'll see President Sarkozy leading that charge to secure concrete results on capping executive compensation.

On the subject of urgency, there again is sneaking suspicion that we are losing the moment here to make significant structural reform on the financial regulatory system and they want to seize this moment to prevent another financial crisis from happening. They worry that they United States has not taken the deep structural readjustments. They see things returning back to normal – that concerns them greatly. The Europeans are moving ahead on this. The E.U. is issuing and creating legislation and directives on directing hedge funds.

We need to watch this space very carefully. The European Union is obviously in a moment of change – whether the Irish referendum on October 2nd and when the Lisbon Treaty comes into effect. But you will see a more robust legislative agenda from the European Union within the parliament, but you will also see from member state capitals, they really want to fix this. And they're so concerned – again, coming back to the this crisis was born in America; America needs to take the important structural changes to fix it.

I think there will be less discussion or less focus, if you will, on the governance question of reform of IMF and World Bank. There will be good talk about it, but understand that for Europe, this is a delicate dance. On the one hand, they do want to see reform, but to reform and to enlarge and give more space to China, to India, to Brazil, comes at the expense of European voting quotas. And if you believe, and I believe my statistics are correct, Switzerland and Belgium hold more quotas in the World Bank than China does, but it's very hard to give that voting power up. So it will be a delicate issue for Europe.

You'll also hear, finally, exit strategies. Again, there has always been a disagreement. This even began in London about the benefits of stimulus. And Europe has been quite concerned over the growing deficit spending here in the United States, and becoming addicted, if you will, to stimulus. Particularly in Germany, where a history of hyperinflation still remains very relevant in their political dialogue, they see that if there's not a very concrete way forward on how you get yourself out of the spending package, it's a recipe for disaster – it will cause another bubble; we'll have another crisis; here we go again.

And so you will start hearing where's the exit strategy and quite frankly now that the stimulus has proven to be very valuable in softening the effects of the recession, Europe will now be seized by their growing unemployment which will continue to challenge them well after economic recovery.

I'd like to take two seconds just mention a little bit of where European leaders are since we last left them. L'Aquila and Pittsburgh – as I mentioned, Chancellor Merkel is working overtime campaigning very vigorously for her September the 27th national elections. I have to say, I love some of her stump speeches; I've been following them. But again, it will tell you how much of a populist issue this is.

She told recently a German audience that "the economic crisis had proved the superiority of Germany's postwar model in every way. Germany was not like America, where 500 million people had no health insurance." She told the crowd, "wise German leaders had balanced freedom with security and wealth with social solidarity." She is doing a compare-contrast; obviously there are still significant issues that Germany economically will have to face and structural issues, but right now there's a feeling of great pride because they feel that they have – their model is an example, should be an example to others.

Our friend, Prime Minister Gordon Brown, has not been faring very well since we last left him left him in the G-8 summit. A recent British poll showed that 48 percent of Britons believe that, "literally anyone from the Labor Party could do a better job than Brown." That's got to hurt. (Laughter.) And 61 percent see him as a liability to the party. I think that this is important.

Obviously, the British must hold elections no later than June of 2010 and you are seeing, because of this increasing unpopularity, where normally the Brits would be right with the U.S., particularly on executive compensation, they have a very specific interest in ensuring that London remains the financial hub of Europe, protecting the city. This has direct implications for them, but Brown started to turn on this bonus cap issue, I think in part that reflects that this is a populist issue that's gaining great traction in Europe but it also suggests that, you know, that weakness of home does start to have an impact.

Again I think you'll see President Sarkozy playing up certainly, his 30-minute phone call with President Obama, you know, reviewing the G-20 agenda. Again, I think that suggests that France will continue to seek a more robust role in Europe, particularly in the G-8, G-20 forum. And then finally, I haven't heard too much – Italy. Obviously, when we covered the G-8 summit, there was way too much press for Prime Minister Berlusconi on his trials and travails, but today, six Italian soldiers perished outside of Kabul, I understand.

I raise this as a reminder, because the air strikes in Kunduz on September 4th of the Germans – our European allies are taking casualties and the political will in Europe for continuing the fight in Afghanistan is weakening on a daily basis. It's something we need to watch and I'm sure the administration, well I certainly hope, will do extensive coalition management and support because this is going to be certainly a strong issue in the coming weeks. Thank you.

CHARLES FREEMAN: I'm going to be very, very brief, because if there are questions about China in Q&A, I can get to them. But on just a couple of quick notes: First, on the U.N. General Assembly, this is the first time since China rejoined the U.N. in its current form since 1971 that the head of state has visited the U.N. General Assembly. In part, this reflects just the proximity to the G-20, but it also reflects an ongoing debate in China – public debate about China's role in the world, and whether or not China should become more of a leader in global affairs.

And by and large, the President Hu Jintao, I think, feels the need to not necessarily cede the global stage at the U.N., particularly to President Obama, and therefore this is an interesting step by the Chinese to do this. In Pittsburgh, the Chinese are sort of the flipside to the Europeans. The Chinese are very, very focused on their representation in the IMF. That's going to be one of their primary focuses at G-20. They are going to be very focused on insisting that stimulus continue and that the taps not get turned off for credit. We're not quite out of the woods yet. They experienced, over the summer when there was a notion that the stimulus was being shut off from China, their stock market essentially crashed. So there's still concern within China that we not back away from stimulus just yet.

And then finally, very much unlike Europe, the Chinese, in other parts of Asia, really are hoping on some level for a return to normal, return to the previous structure because they were doing quite well, at least in their view, in a situation in which the United States was over-consuming and overspending and they were benefiting as a result. There is, I think, a recognition among the Mandarins in Beijing that there has to be a restructuring and there has to be a rebalancing and that Chinese consumption has to increase and that they can't be so reliant on exports for growth, but that, I fear, in terms of public attitudes, that is somewhat of a minority view. And there is still kind of a very strong nostalgia for the good old days when household debt in the United States was running at 130 percent of household income and the Chinese household debt was running 30 percent of household income.

A couple of quick things on the question of a push on SDRs or whether there will be a push on, or back against the dollar: Yes, there's a strong sentiment within China to do something and move away from sole reliance on the dollar as the reserve currency. There's been enormous amount of purchasing of commodities from gold to petroleum to zinc around the world by the Chinese as they attempt to sort of dump – or not dump dollars, but to try to buy anything other than Treasuries, but they've discovered that that's very difficult.

There really is no alternative and the more they keep talking down the dollar, the worse they fare so there's been in recent weeks and days in official media kind of a resignation to at least the mid-term strength of the dollar and the mid-term importance of the dollar as a reserve currency, even if there is quietly some internationalization of the renminbi going on – sometimes not so quietly.

On trade, the tire decision was not unexpected by the Chinese – not appreciated but not unexpected. The administration has been signaling privately to the Chinese that they had very little choice unless there was some grand concession on the subject and the Chinese were unprepared to do it – unprepared to do it largely because the special safeguard that the U.S. invoked – which, by the way, has been invoked by many other countries and nine times by India. But because the United States is such an important player in this whole thing, the Chinese are deeply upset about it because it is a discriminatory safeguard against China.

No other country in the world had this safeguard applied to them as a condition of joining the WTO. It was kind of forced down their throats at the last minute by U.S. negotiators and with the quiet assurance that this would never be used. And so the fact that it was used and the fact that it was forced down there, it sort of conjures up – and if you read the blogosphere in China, there's a lot of discussion about how this is a return to the unequal treaties and colonial adventurism by the West at China's expense. That's a little bit fantastic, to be candid, but it does have this sense of – there's a lot of public angst over it.

And frankly, because Beijing is feeling – particularly in the wake of the rioting in Xinjiang and sort of ongoing problems in Tibet – Beijing has been, or the leadership has been criticized by the Chinese people, at least through the blogosphere and others, for its apparent weakness in the face of foreign pressure. So they really didn't need an example of foreign pressure being applied, so they've reacted. Will it start a trade war? No: A, because they're going to tone down the rhetoric because there are high-profile bilateral exchanges between the two countries, not only the G-20, but at APEC. And President Obama's likely going to China in November around APEC so they want to sort of preserve at least a formal sense of decorum in anticipation of that.

That doesn't necessarily mean that unofficially there will not be a lot of mischief made by Chinese bureaucrats at the expense of U.S. and other international businesses in the mainland. But at least on the surface, China is very much trying to keep this within a WTO framework and their retaliation is going to be commensurate with the value of tires, for example.

One other thing that's keeping the Chinese a little bit calm on the subject of tires and why it's unlikely to lead to a trade war – the Dalai Lama is visiting the U.S. next month and visiting D.C. next month and the expectation had been that the President would be meeting with the Dalai Lama. Over the weekend, Valerie Jarrett and the new undersecretary for Tibet affairs, Marie Otero, were in Dharma Shala meeting with the Dalai Lama, essentially as the booby prize, saying to the Dalai Lama, you know, you're not going to meet with the President when he's in Washington.

And the Dalai Lama's official statement came out I guess Tuesday was, the Dalai Lama looks forward to visiting with President Obama after the President's meeting in Beijing. So the Chinese are going to feel – I mean, there's a lot of pressure being placed by the Chinese on the administration to try to move a presidential meeting with the Obama and the Dalai Lama past November and they got their wish. So in some respects, does that outweigh or does that cancel out the tire decision? No, but it goes a long way for the Chinese sensibility to recognize that the

United States, or at least the administration, is trying to keep China's sensitivities and interests at heart. I think that's all I want to say.

Oh – climate change. Unlike the Europeans, Chinese and other developing countries don't like at all the notion of climate change discussions being forced into G-20. I know it's a natural forum to try to bring this to bear but the Chinese and the Indians in particular and the Brazilians as well are not prepared to have any serious discussion in a multilateral forum so I think there would be push back at least to try to do anything other than purely rhetorical statements on climate. Thanks.

MR. SCHWARTZ: We would like to take questions – (inaudible, off mike).

Q: I'd like to comment – (inaudible, off mike).

MS. CONLEY: I think I'll raise my hand on that. Thanks, Karen. Well, you know, I have to say, I'm reading the press lines now as the story is emerging and it appears that it may – the story sort of began to be unveiled in Prague and Secretary Gates at 10:30 this morning is going to announce the so-called major adjustment to missile defense. You know, there's never a good time to deliver disappointing news.

I find the timing of this a little problematic and I think, you know, let me turn it back to, like, a hope and a fear. I hope that the Obama administration during its deliberations during its review of missile defense and in its ultimate decision took the time to do some significant consultations with both Warsaw and Prague. This has huge internal ramifications there. But also, NATO is involved in this because at the last – the spring 2008 NATO summit in Bucharest, NATO blessed the missile defense concept, sort of NATO-izing it, if that's a word. And so I, you know again, I hope there was some consultations here because it does have ramifications for European security writ large.

My fear is that what this demonstrates to countries who supported the United States, that there is – they take great risk if it's supporting an initiative and then if it doesn't come they're left holding the bag. And this – what will cause the problem is the next time an American administration goes to the Poles, goes to the Czechs and says, hey I need this or can you help us out with that, there's going to be a recalibration on that decision-making process.

Central Europe has certainly historically been a very pro-U.S., pro-trans-Atlantic body. As you've seen reflected in many news stories, as well as the July 22nd open letter from former Central European leaders, there's growing concern that Central Europe no longer is seen as close to the United States and this has worried many who are very, very pro-American. So we need to handle that issue well and the Obama administration needs to redouble its efforts to reach out to that leadership.

But it does have profound I think, implication and this is where the timing gets into it a little bit, and I hope when Secretary Gates announces this that the White House provides as much transparency as they can – you know, is there any causal link between this decision as we head into President Obama's meeting with Russian President Medvedev? Was this is in any way a quid pro quo for a continued progress on the START talks? During the Moscow summit in July, I think the administration was extremely clear you know that this is not there red lines here; this is not part of a quid pro quo-based relationship.

And I think we certainly took great comfort in that but because of the timing of it could be just unfortunate and that transparency of the decision making timeline needs to be I think explained – certainly explained to Central Europe – because what this does if in fact there is any type linkage, it just concerns Central Europe that once again, historically, a decision was made over their heads, but they're left with the historical and security implications of that decision. We need to watch it carefully obviously, this is a story that's rolling out for us today but it does have significant impact on U.S.-Central European relations.

MR. SCHRAGE: I just have one thing quickly to add and I think Heather greatly covered the substance but in kind of the G-8, G-20 context one of the great benefits of these meetings is that they're often dominated by things that aren't on the agenda. And just having leaders get together, kind of to force and drive actions and horse trading on issues that seem completely unrelated at the time so, you know, while this was probably driven by security concerns, it's a chance to kind of fuse all these issues together and engage in these kind of strategic relationships.

Q: (Off mike.)

MR. ALTERMAN: The administration is trying to build and sustain as broad a coalition and a strong a coalition as it can on Iran issues. I think that that helps explain but doesn't totally explain the decision to accept the Iranian letter as a basis for further negotiations. Clearly, one of the important limiting factors in an international coalition on Iran is the Russian position. The Russian view has been that the Iranians are not on the brink of having a nuclear weapons capability and therefore, now is not the time to take desperate, last-minute measures to keep the Iranians from crossing a nuclear threshold.

There has recently been an apparent softening in softening in Russian opposition to further sanctions against Iran. Whether there is a linkage there, what created that, how much will actually emerge in the October discussions remains unclear. But certainly, what I continue to hear from people in administration is that Iran is consolidating its position as a central security issue. And there remains a sense that while we don't know exactly how close the Iranians are to having weapons capability, were the Iranians to acquire a nuclear weapons capability, that would be a game-changer for U.S. security in a very broad part of the world, not just in the Gulf.

Q: Thanks very much. Two quick questions, please. If I could follow on Iran with Jon, can you please help us isolate what exactly President Obama wants to emerge with at the U.N. regarding Iran, particularly given the fact that there are those October talks coming up? What's the mission at this upcoming session for the president?

And also, for Heather, you talked about this debate about financial regulatory reform – Europeans are concerned; can you put in plain English what that would mean? For the American public trying to follow this, what would it look like if we saw it? Again, what does the president want to emerge with there? What do Europeans want to emerge with, in a way that people can relate to?

MR. ALTERMAN: I'll speak with the liberty that comes from not actually knowing what's on the administration's gameplan for Iran at U.N. GA. It seems to me, as I said, the administration doesn't want to have a public negotiation over the Iran nuclear program at the General Assembly. It wants to talk broadly and will have a special session of the Security Council to talk about nonproliferation in general, not mentioning individual countries.

But the goal is really to privately work to set up the October meeting to be as consequential as it can be. There is isn't a need to negotiate with Iranians; rather, there is a need to have quiet talks among our allies and among countries which are not so closely allied, to make sure that we can speak with one voice to deal with this emerging, central issue.

MS. CONLEY: And Jon, just to follow up on your comment. And this is where, again, Russia is going to play such a critical role here. And our understanding, again, making a causal link, if you will, to this outcome on missile defense, whether we will in fact see any movement on the Russian position vis-à-vis the sanctions. I think the Europeans themselves, the EU three, actually in their public statements have been very robust in their concern about Iranian action. Certainly, the IAEA statements caused some concern in Europe about not the transparency, but I think Russia – that's what I would watch – both their private and their public statements in coming days.

On the financial situation, to me it's – I don't think there's going to be a war or clash of statements; I don't foresee any big news out of it. I think it's more of a compare-contrast: here, this is what Europe is doing; this is the vigor at which that they are approaching structural change; they're going to make sure that risky behavior is taken out of the equation and that's why they're tackling the executive compensation issue. They don't want to reward risk-taking. They want to see – and this is coming via the EU – they want to create a supranational regulatory body that would have the authority to swoop in if a national authority wasn't being vigorous in oversight of the financial regulation.

You're hearing very strong concern that the lessons haven't been learned, and you can compare that to the legislative action, or very little – lack thereof – in the United States addressing these same issues. And they're like, wait a minute, we're doing this; we want to prevent this from ever happening again. Americans, what are you doing about it? And the trick on this issue – you can't have unevenness in how you regulate, because if the banking system in the United States has less stringent requirements than Europe, that has implications. Then you create another problem which will go back to Europe.

So I don't suggest to you that there's going to be any public confrontation, but I think the words are starting to heat up a little bit. I think they're starting to get a little frustrated that the urgency is being lost – that crisis feel. The one-year anniversary of the collapse of Lehman Brothers – they're not sure that we're getting about tackling this really seriously.

So I think that's what it is. It's a very detailed financial conversation so I'm not sure the American headline-grabbing stuff, it's pretty detailed and pretty specific. But there's certainly a very growing gap between what the Europeans are doing about the matter, and what the United States is doing legislatively about it.

Q: Paul – (inaudible) – of Reuters News Agency. This G-20, as well as the U.N. GA, will be a bit of a coming out party for Yukio Hatoyama, the new Prime Minister of Japan. What kind of profile might we expect him to cut? Will he be any different than the long line of fairly disposable Japanese prime ministers, with one exception – Koizumi – that we've really had for two decades? And Japan has also been an economic laggard for most of this last decade or so.

MR. SCHWARTZ: Andrew, did you want to tackle that?

MR. FREEMAN: (Chuckles.)

Q: Will he get a pass as a debutante, a sort of pat-on-the-back, that sort of thing?

MR. SCHRAGE: The interesting thing is that – and I'm not our Japanese expert by any stretch of the imagination – but from dealing with him in the past G-8s, is that again, there was a lot of rhetoric in the campaign and it's going to be very critical to watch how much of that rhetoric translates into reality.

So as you mentioned, there will be an intense focus on that and that's the big question mark: Is he going to play the traditional role of stepping in and listening and feeling out the situation before firing, or is he going to mark a bold shift in how Japan approaches the G-8 and G-20? Traditionally, Japan has been an incredibly strong ally of the United States in these efforts and often, it's the United States and Japan formulating ideas that are then brought to the rest of what used to be the G-7 or G-8. So it's going to be fascinating to watch but I don't know if anyone can predict at this time where he's going to go.

MR. FREEMAN: If you read his opening remarks as prime minister, nowhere in there is a salute to the U.S. alliance. That's the first time that that's ever been missing from a prime minister's opening speech. I gather that the initial call between Hatoyama and President Obama went very well, and was relatively concessionary by Hatoyama.

But it's going to be a rocky year ahead, at least in bilateral relationships. Will he bring that into multilateral fora? That would be uncharacteristic. But it will be difficult for him to be too forward-leaning in terms of embracing traditional roles that Japanese prime ministers have had in these things.

Q: Cesar Muñoz, with a question for Heather. On this issue of the exit strategy, what's in the mind of European leaders? I mean, because you said they are concerned a lot, letting things go too long, but at the same time unemployment is really high there still, and is rising. So what's their point?

MS. CONLEY: Well, I think they'd like to see a little bit more of a thought-out plan on how to taper off the stimulus spending. Again, it comes back to the concern of growing deficits, it comes back to an unsustainable strategy. So I think they just would like to see, okay, what is the thinking Obama administration, and how are we going to wean you off the stimulus money.

Again, this, in part, supports the theory that Europe's economic model is a better model. There was a cushion – the social safety net cushion – to the immediate effects of the recession. So there is some of that, but I think they're just concerned that if the United States and others continue just to do rabid deficit-building and spending, we're just going to be back in another crisis before we know it.

So I think they just want to see, tell us how this story is going to end and how you are going to close down this stimulus money. And right now, the rhetoric is, thank goodness the stimulus money prevented some of the worst effects of the global recession. People will acknowledge that the stimulus was good; they will say, but okay, now how are we going to start moving forward?

And again, because there's been so little action, I think again, now they're starting to anticipate, we really need to see this because we understand you want to begin to wean yourself off, but we don't see how you're doing it; we don't see the legislative action that would suggest to us that you're going to be doing this. And Steven, you may have some additional thoughts on that.

MR. SCHRAGE: Yeah, yeah, just to add to that – and I kind of mentioned after the stimulus binge, there's kind of this hangover, a worry about how we deal with all this debt. And we're seeing that both in the Europeans but also from the Chinese. I mean, they're very nervous about – you know, traditionally every great power that had a reserve currency, going back to the Romans, has gotten out of these very politically difficult situations by devaluing their currency.

And obviously, with the United States, it's different than any other nation, because that has global impact on their reserves, on their trade balances, on everything. So I think you're going to continue to see this very nervousness, and these issues put on the agenda until they have some kind of sense of how the United States is going to unwind its monetary policy, which could be risky, but is somewhat easier to do, but even more concern about these massive congressional spending projections that go off into infinity, and how do we rein that back in? And I think the world has no idea how we're going to do that, and hasn't really gotten a sense the United States has articulated its point on that either.

Q: President Obama is going to chair this U.N. security meeting on nuclear disarmament as the first time. Do you see any momentum coming out of this for the CTBT and in the future?

(Pause, cross-talk.)

MR. SCHWARTZ: I'll get you someone to answer that.

Q: Just a broad question for all of you is looking, you know, a week-and-a-half from now, whatever, what would you look for to see whether these two events have been a success or not? Just a couple of thoughts.

MR. ALTERMAN: I actually think what's going to happen in the next two weeks is going to frame what's going to happen the month after that. So it's really setting the table for action in October rather than action in September is the climax. As I say, the U.S. doesn't need an excuse to talk about Middle East issues. It has to show an effectiveness leading on Middle East issues. The U.N. forum is not where the U.S. wants to lead; it's where the U.S. wants to conclude. So I think you'll see some preliminary steps but the real action is to follow up in October.

MR. SCHRAGE: I'd say, in a sense the G-20 has done the easy part and kept on doing the easy part again and again, which is coming together and making very broad statements saying, we're all in this together, we're going to solve these things, we're going to come up to global accounting standards. You know, kind of in a parallel to the Middle East peace process it's easy to say you want peace, but then getting the actual deal or moving forward is very difficult.

And I don't think there's going to be any kind of revolutions on that in the next two weeks, but I think would be critical – and this is kind of where we're at this G question mark stage – is, is there going to be a commitment and a process going forward? And an investment by President Obama, some of the key political leaders in Europe, China and elsewhere to see this process through, to name names, follow up, drive this forward on a number of different issues. And I'm heartened by the fact that the U.S. sherpa report today has been moving forward on this idea of addressing the global imbalance.

Now, there's no easy solution to this, because the currency matters aren't covered by the WTO; you see this tension everywhere. But at least moving aggressively for this and a sense of urgency, that even while healthcare and other things are going on, we can't allow ourselves to slide back to where we were a couple months ago.

MS. CONLEY: I think for the Europeans, success out of the G-20 would be securing a very firm plan of action, particularly on the executive compensation issue, and try to push the United States as hard as they can to get firm commitments that they will do the following. I think a bonus would be some forward-leaning public statement by the president that with renewed vigor, he is going to use his political capital in addition to the healthcare debate to try to push forward climate change legislation before the December Copenhagen meeting.

MR. FREEMAN: It's going to be very, very difficult to define any kind of success. You have a group of countries that really, in many respects, are fundamentally at odds with each other about the direction that they want the globe to take. You know, China wants the world to recognize the new realities of its place in the world and the Europeans are not so keen on that. The United States is perhaps slightly more keen than the Europeans.

But the Chinese, at the same time, are not as interested in dealing with some of the more fundamental issues; executive comp is just not on the agenda for them. A global financial regulatory model – they're interested, they want to see specifics. They certainly are not interested in ceding any sovereignty or any ability to control domestic decision-making as part of that.

So the reality is – I think Steve suggested – is that a success has to be measured by whether or not they leave without bickering. Because whether or not we think the G-20 is a wonderful way of managing global affairs, it's the only thing we've got at this point. So if there is not a commitment to continue with the forum, then I think we can all despair a little bit about the future of the next year-plus.

MR. SCHRAGE: I agree exactly with what Charles was saying. It's the sense – and I think Heather recognized this too – is that, to paraphrase Rahm Emanuel, there is a great fear that we're going to have wasted this crisis, and that we're going to have been distracted by other things now that the attention turns away from it. And I think that's the kind of theme running through, at least from the Europeans and others, and I think a lot of the U.S. policymakers on the economic side as well.

MR. SCHWARTZ: Thank you all.

(END)