

**CENTER FOR
STRATEGIC AND INTERNATIONAL STUDIES (CSIS)**

**CSIS SHERPA SUMMIT 2009: PITTSBURGH AND THE FUTURE OF
INTERNATIONAL LEADERSHIP THROUGH THE G-8/G-20/G-?**

**WELCOME/MODERATOR:
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**SPEAKERS:
AMB. HAN DUK-SOO,
FORMER PRIME MINISTER AND FINANCE MINISTER OF THE
REPUBLIC OF KOREA**

**AMB. ICHIRO FUJISAKI,
FORMER G-8 SHERPA FOR JAPAN**

**AMB. GIOVANNI CASTELLANETA,
FORMER G-8 SHERPA FOR ITALY**

**GARY EDSON,
SHERPA THAT LED G-8 RESPONSE FOLLOWING 9/11 ATTACKS**

**AMBASSADOR ALAN LARSON,
FOREIGN AFFAIRS SHERPA DURING CLINTON AND BUSH
ADMINISTRATIONS, LED DEVELOPMENT INITIATIVES**

**DANIEL PRICE,
SHERPA THAT LAUNCHED PATH-BREAKING G-20 LEADERS'
SUMMIT TO DRIVE GLOBAL RESPONSE TO ECONOMIC CRISIS**

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FINANCE SHERPA FOR THE G-9 AND FOR REGIONAL FINANCE
MINISTERS' MEETING UNDER THEN-TREASURY SECRETARY
RUBIN**

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STEVEN SCHRAGE: Good afternoon. Welcome to CSIS. I'm Steven Schrage. I'm the Scholl chair in international business here at CSIS and I'm proud to welcome you to our launch of a series that we're having on what may be the most critical issue facing the world. What shape will the next global economy take and what strategic ramifications it will have for the United States and the world. And as we think about this issue, nothing probably looms larger than what kind of leadership structures and what kind of leaders will take this forward and develop a course for the world and for our countries as we face this crisis that we haven't seen in years.

And I think a lot of discussion for President Obama recently has focused on health care, but I think in terms of the overall historical perspective how we handle this financial crisis and how leaders here and elsewhere deal with that will be how history looks back on whether we were responsive, whether we set the stage for further economic stagnation, or actually set up for financial crisis 2.0 or charted the way forward to more sustainable growth.

And as we look at that, our global efforts in the G-8 and G-20, we couldn't have a better group than we have here today, both in terms of U.S. sherpas that have led the launch of the G-20 leaders summit, led the G-8 after 9/11, the transition in the 1990s, post-Cold War, reacted to the financial crisis working with legendary Treasury secretaries such as Robert Rubin, and particularly, our panel here today from an international perspective. Because the G-20 was a great recognition that the world had changed in key ways and that no nation could go with this alone and that we needed to broaden the scope of our efforts to include new nations on the international stage.

So with that, again, I couldn't more pleased to have the distinguished group we have here today. Immediately on my left, we have Ambassador Han Duk-soo. And as I wrote last spring, with Korea's upcoming G-20 chairmanship, its leadership on FTAs, including the U.S.-Korea FTA that's pending, and its response to its own financial crisis, leading reforms, and its key role in security issues in what may be the world's most dynamic region of Asia, there may be no two nations who are at the center of such an intersection of interests as the United States and Korea.

And we couldn't ask for a better representative as we deal with the issues of the financial crisis than Ambassador Han, who is not only ambassador, but was prime minister, was a minister of finance and trade, covered basically every major base on the important positions related to global finance and international trade.

And he's also no stranger to the United States, having attended school at Harvard, where he got his master's and his Ph.D., as well as serving at the OECD as ambassador and coordinating with many of the other leading global economies. He's awarded many medals and we're very honored to have him here today. So thank you very much for presenting. And as the chair of the 2010 G-20, I think Korea has a unique perspective to provide on that as well as your own personal observations on the way forward.

Secondly, we have Ambassador Fujisaki from Japan, which has long been a strong ally of the United States in the G process, dating back to the original Gs in the 1970s. He personally has an incredibly wide range of experience and like Ambassador Han, his experience with the United States goes very back, even, I believe to – was it middle school were you in the United States, in addition to other periods of study, and has served at the OECD in a whole range of other capacities. And as chair of the 2010 APEC summit, the summit that will occur in the world's, again, most dynamic region and talk about Asia's integrating with the United States, again, we couldn't ask for a better person to discuss those issues.

And finally, last but not least, we've Ambassador Castellaneta. And I think the Italy G-8 that was recently held was groundbreaking in so many ways. It was over 40 countries. It represented the idea that you may need to pull different groups together to address different issues and his role as a former sherpa, as Ambassador Fujisaki, gives him kind of an unparalleled perspective on these different challenges that were faced.

He's advised several prime ministers in a foreign policy capacity as their senior advisor, been a diplomatic advisor to the treasury ministry, and in addition – I should refer to my guest as possibly Knight Castellaneta because he was honored his country's highest award of the Republic of Italy, the Knight of the Grand Cross. So we're very interested in hearing your perspective, again, personally and then also coming out of that kind of landmark G-8 where you think we go from here.

So with that, I'd like to turn it over to our distinguished panelists for opening remarks. I may pose a question and then I'd really like to turn to audience. Part of this next global economy series we're trying to develop here in advance on a number of different issues, ranging from rebooting trade to what security issues could undermine global recovery, is not a series of lectures, but a dialogue. I know there're so many talented people in the audience, so we look forward to hearing from you as well. So with that, I'd like to turn to Ambassador Han.

AMB. HAN DUK-SOO: Good afternoon and thank you, Dr. Schrage, for your kind introduction. President John Hamre and many other distinguished guests, thank you. I'm very honored and pleased to be here. We are now one week away from the Pittsburgh G-20 summit and at this critical juncture, I'd like to thank the Center for Strategic and International Studies for holding this timely seminar, which provides an opportunity to review and discuss the goals and implications of the G-20 summit for the world economy.

CSIS has long been a leader in producing many excellent reports on important current issues that pay tribute to President Hamre's vision and leadership. As an ambassador of a G-20 Troika country, this seminar is also an invaluable opportunity to share the sessions and lessons and experiences of the former sherpas who laid the foundation for the G-20 as a global governance system.

After the global economy slipped into an unprecedented economic setback, there was growing concern that this financial crisis might spill over to the real sector of the economy and we would enter the second Great Depression. However, what is different in its response between

the current situation and the Great Depression in 1929 is that 20 leaders of the world's leading economies gathered together in Washington, D.C. right after the crisis and then again in London in April. They recognized the need for a bold and decisive action to address the financial crisis and agreed upon close coordination of measure policies.

Firstly, the G-20 nations decided to actively pursue macroeconomic policies such as countercyclical, fiscal, and financial policies that will provide \$5 trillion for the next 2 years. Secondly, the leaders agreed on adherence to the free market and declared a standstill on protectionism, refraining from building new barriers to trade or investment. Thirdly, the leaders also decided to enhance crisis management by expanding IMF resources and to strengthen an early warning exercise.

In addition, they agreed to enhance the emerging economies' participation in international financial institutions and financial stability board. The leaders also made a strong commitment to improve international financial institutions' governance, reflecting the changing economic weight of the emerging and developing countries.

Lastly, the leaders showed their commitment to support emerging and developing countries who have been hit hardest by the crisis. They agreed to insure a total of \$1.1 trillion in support of these countries. In particular, since the Washington summit, Korea has led the discussion on rejecting protectionist measures worldwide. The standstill declaration proposed by Korea has contributed to resisting the pressure to slip into more protectionist policies and identifying free trade as the driving force for the healthy recovery of the global economy.

Having reached a substantial and detailed agreement during the first and second G-20 summit, the G-20 has firmly established itself as a main forum for discussing ways to resolve the global economic crisis. Fortunately, buoyed by the positive evaluation of the G-20 summit as having been a turning point for the global recovery, the leaders decided to hold a third G-20 summit in Pittsburgh on the 24th and 25th of September this year.

Let me turn to the main agenda of the upcoming G-20 summit. Even if the economic indicators throughout the world economy show signs of improvement, macroeconomic coordination to overcome the economic crisis will be the key agenda for the Pittsburgh G-20 summit. It is premature to unwind the support measures the G-20 nations have taken because the downward risk persists amid the rising unemployment rate, unstable prices of raw materials, and still lingering financial uncertainty. Until the recovery becomes firmly established, we should maintain strong policy responses.

At the same time, we need to begin preparation for an exit strategy, heeding fiscal sustainability and signs of inflationary pressure. Considering that unwinding the policies of crisis will involve complex challenges of timing, speed, and sequences, there should be close coordination in preparation for an exit strategy based on common principles in order to prevent the world economy from sliding into a double dip.

As important as macroeconomic coordination is, transition towards more sustainable and balanced growth is another major challenge for the Pittsburgh summit. Developing a common

framework which ensures high, sustainable, and balanced growth will require both flexibility and cooperation from the G-20 – flexibility because each country will have its own national trajectory towards sustainable growth; cooperation because the crisis has taught us that national macroeconomic strategies developed in isolation can lead to dangerous imbalances.

The Pittsburgh summit is an opportunity for the G-20 to launch a process to guide the global transition to sustainable growth. And Korea, together with Australia, proposed a three-stage process. First, national governments should develop their own national strategies for recovery. Second, they should agree to deliver these strategies to the IMF and ask the IMF to report back on their consistency with balanced and sustained growth. Third, G-20 leaders should meet in 2010 to agree on their responsibilities and the necessary actions to achieve this goal within the framework of post-crisis global economic management.

For the sustainable growth path of the world economy, we also need to take into account various challenges like the Asian society, climate change, and unstable price of raw materials, et cetera. In this regard, I'd like to point out that Korea has embraced low-carbon green growth as a new strategy to lead Korea's developments for the future in moving beyond the conventional economic growth approach.

Leaders in Pittsburgh might discuss and take note of the importance of low carbon green growth as a new engine of sustainable growth and commit to encouraging green investments and enhancing international cooperation on the development of clean technology. There is still more work to do to implement commitments at the Washington and London summits, such as reforming financial systems, modernizing and insuring resources for the international financial institutions, and supporting developing countries.

International financial institutions reform is a fertile ground to produce many concrete deliverables for the Pittsburgh summit. In particular, fundamental reform is required of the IMF so that the fund properly reflects the changed global economic weight and promotes more balanced global growth.

In this regard, it'll be highly important to come up with a concrete roadmap for the quarter review to be completed by January, 2011. Given the high level of attention that \$1.1 trillion commitment received in London, we are happy to note that satisfactory progress has already been made. Pittsburgh summit should work out a clear picture about how the increased resources will be utilized.

With respect to reform of financial regulations, we should guard against the loss of momentum arising from the stabilization of the financial market. This is no time for complacency. In order to stabilize the financial market in the emerging economies, the form of regulations must focus more on assuaging the extreme volatility in the international capital movements and exchange rate.

The G-20 has firmly established itself as a main forum to produce substantial and detailed agreements on overcoming the challenges of the global economic crisis. The G-20 has demonstrated its capability to represent the perspectives of both emerging and advanced

countries. As the G-20 has demonstrated its capability to represent the perspective – its management efficiency in dealing with measured global economic and financial issues. For these reasons, I would say that the G-20 is a representative and legitimate forum to steer the global economy.

As such, it is crucial for us to make the G-20 an ongoing process. In this regard, Korea shares the view that the G-20 needs to hold another summit after the Pittsburgh summit to address crucial post-crisis management issues and to ensure the follow-through on previous commitments. As the chair of the G-20 finance ministers' meeting for 2010, Korea would like to host the next G-20 summit in 2010 for the following reasons.

First, as one of the G-20 Troika, Korea has actively contributed to the G-20 process, proposing measures such as the standstill pledge, principles of impaired asset management, and liquidity supply for developing countries at the Washington and London G-20 summits.

Second, it would be natural for Korea to host the fourth G-20 summit since it'll chair the G-20 finance ministers' meetings and deputy meetings in 2010. Third, Korea can bridge the viewpoints of developed and developing countries since it has the experience of developing from one of the poorest countries in the world to attaining the status of an OECD member country.

I hope Pittsburgh summit will be a total success and with a success the global economy can continue its path towards full recovery and prosperity. Thank you again for listening and I would be happy to answer any questions afterwards. Thank you. (Applause.)

MR. SCHRAGE: Ambassador Fujisaki?

AMB. ICHIRO FUJISAKI: Thank you very much. The notice I received was please try to limit yourself to 10 minutes, but having Giovanni, the Italian ambassador next to me – he was my sherpa colleague at G-8, I thought – and he's leaving, terminating his job in a few weeks – I thought I would give him my five minutes. So I'll limit myself to five.

So two days ago, I was giving a speech and the title was "Japan, Changes and Continuities." Usually, you would expect that I would say that there's at least some changes in Japan. I didn't have to do that this time. (Laughter.) Today, I would just limit myself to three points – G-20, climate change, and APEC.

G-20: A year ago, a lot of even pundits in this town said we have to relook at Bretton Woods, really review the whole system. And I was a little doubtful. With hindsight, I think that was a bit exaggeration, but we are not that bad now and that this is thanks to G-20 initiative. I think U.S. took a lead and that was great initiative to have G-20 summit meeting in November and it was followed and having this group of leaders has given one point a confidence. They assured people around the world that they're carrying. They're trying to cope with the issue. And that was the big thing.

In this coming one, we'll be discussing bonuses and visa. Visa are not that difficult for us to support because some Japanese business leaders said the bonuses of Japanese corporate

CEOs are about two digit smaller than a – (laughter) – well, certain country. I don't have to mention. As for – so G-20 has done a great job. How to use G-20 from now on, continue whatever, that's leaders to decide.

I was a G-8 sherpa with Giovanni and Al here and we worked together. And I thought I saw a good colleague over there as well, but – and a lot of American colleagues – but – I thought G-8 has two merits over other summits. One, they were coping with political issues – nonproliferation or terrorism and more deeply than any other. Second, because the numbers are limited, they had real deep exchanges amongst leaders. And I thought that was good. Second, on climate change, the new incoming government is trying to take the position that our goal for midterm will be far more bigger than what we had been doing.

The previous government goal was 15 percent cap from 2005 and Waxman-Markey was 17 percent from 2005. I think what we'll be doing is nearly double those. And it has not – I think the new prime minister will announce this in New York. But what he has been saying before becoming in the government was a very big number. So I think this is what some Japanese companies were concerned because they think that it's a little too high. Some industries think that this is a golden opportunity. In 1970s, we had oil price hike and that really made Japanese economy more efficient. So we should take it.

So it's not one voice in Japan, but one thing I can say is that according to IEA public investment in energy sector is done by two countries mainly, 70 percent by two countries – U.S. and Japan, U.S. 30 percent, Japan 40 percent in public investment in the energy sector. So I think the two countries have special responsibility and special also possibility to realize a lot of contribution in climate change to bring about progress in COP15.

Three, on APEC, we have regarded and we think it's very important because U.S. is involved. It's the only real pan-Pacific community that we are discussing – we have been continuing and this year especially is convening in Singapore. Next year is Japan. And the year after next is U.S. So we hope that we can carry a torch in between Singapore and United States and have a very meaningful one. It's not – it should not be really only technical issues that should be discussed, but we have to really focus on strategic issues as well. That's about all I have to say. Thank you very much. (Applause.)

MR. SCHRAGE: Ambassador Castellaneta?

AMB. GIOVANNI CASTELLANETA: Thank you very much. I will not need to have these extra five minutes because what is important, I think, to have a contribution all of you about to discuss and so, try to find some solution for a new architecture, world architecture future. Because I think important is that, yes, there are some days that change the world – it's been involved in 9/11. The last one was the global economic crisis last year. This was an acceleration of the process of reforming the international architecture.

And that was the last point. I think the international architecture needs to be reformed because it was conceived 60 years ago, just after the Second World War, so you have the political institutions – United Nations, NATO. You have the economic institution – IMF, World

Bank, and so on. So there's a complex of institutions that perhaps after 60 years need some great reform taking in account the world that has been changed. There're some rising powers. There's Asia having a different role, Europe, Latin America. And then there's a new theme that after Second World War was not yet tackled as climate change, food, environment, and so on.

So I think we ought not to focus a kind of a competition between G-8 and G-20 or some national pride. We still have the G-8 presidency, but then you have the G-20 presidency will change next year. But I try not to limit – not at all to avoid any competition. All this must be considered as tools to face the crisis and to reach a result.

The important is the effectiveness, the accountability of international institutions. And what perhaps lacks on the G-8, for example is that there is not an accountability year after year. We decide. We write hundreds of pages and nobody really reads it. There is not a binding decision. And then – so I think from the perspective of the Italian presidency, we tried, not because we are president, but because of the effectiveness of the institution, to organize a G-8 that could be a response to the crisis and also helping other institutions to find the solution to the different themes that we are facing.

We have a good record because Italy organized the G-8 in 2001 in Genoa for the first time. I think we opened the G-8 to some African countries, some less developed countries since that was when we launched for this global health fund that is still working in Geneva. So this year, after – in the – L'Aquila G-8 that is not anymore G-8, we tried to find some new solution and to open the debate to other countries and to – so there was a different kind of meetings that at the end included around 40 countries because you have the G-8-plus-5, then, together with the Egypt, and then there was a discussion to open also to Turkey and to Indonesia.

They also were other two big countries that perhaps could be included in this G-8-plus-something as President Obama said once, I think, is the last one that not what we excluded. He's always critical toward the formula of G-something. But in L'Aquila was the G-8 meeting that a certain sense is a forum that has proven to be very useful to debate themes and issues that on a basis of a shared vision. That is the main point of G-8, having countries which share the same vision, the same political and economic vision open to other countries that have greater, greater responsibility in the world arena, and not forgetting other countries that can give a contribution to solving the problem.

And the problem is that – this last year we focused on the global financial economic crisis, but that is not to forget that there're other issues that seem now a bit far away, but they are still present. We don't talk anymore about food, for example, food security, food need, and that is very important for many countries. Yes, we talk about climate change, environment, health, basic health, but – so the meeting in L'Aquila tried to focus not only on the economic global – new global economic governance – but also on other issues like this one. And so we asked leaders from African countries to come, the Union for Africa, and so a series of – you know them better than me – those countries that took part to this meeting.

So our contribution, as Italian presidency that we still have until the end of this year is to contribute to build this new global architecture. That is not a work for six months, one year. We

have the same architecture since 60 years, so perhaps still we need some more time to find a new solution. G-20 it's a good solution, G-20 because was an immediate response, it was a tool that we already had on our hands, so that's easy to rise at the level of the chief of – head of governments from the normal level they had in the last year to the finance level. But I think it's not – some good aspects, but perhaps it's not as many say so representative as it could be.

So I think it's more kind of first response to a crisis. We consider it as a kind of bridge perhaps to final, definitive solution. And perhaps having some competence that other institution will not have. So these are always a bit work in progress and not to stick just in one solution. So we imagine as Italy as G-8 is a kind of a club already has some value added that has been proven along the years. But perhaps it's not anymore sufficient to give a response to so many problems in the present world.

G-20 it's an immediate response that can need to be refined and perhaps to focus on the competence. And then, if you have time, talk about U.N., NATO, IMF, World Bank, OECD, and so on. But it's a great task, but, I don't know, we are always pushed by the emergence of the problem. This year has been the economic crisis. We hope that we are rebounding from this crisis and starting in a new period of better growth, anyway stopping the decline and starting a new period. And then facing the other problems I was listing before. So I'm very interested to know also what you think about all these problems and together to give perhaps a contribution to the solution. Thank you very much. (Applause.)

And by the way. In fact, I'm leaving in a few weeks, so I will be in Rome in October. You are all invited – (laughter) – to see me in Rome, but United States for me really is a second home. I will come as often as possible to Washington, to the rest of the United States. And I know that I have many friends here and you have a good friend, a great friend in Rome. Thank you. (Applause.)

MR. SCHRAGE: Ambassador Castellaneta, I think you may have many visitors from the audience, given how beautiful Rome is, especially that time of year. So thank you very much. I think the ambassadors have done such an excellent job of covering such a comprehensive range that I'd just like to turn it over to our audience – because I know so many people have such great experience and interesting questions – so I'd like to maybe start with the individual, the man right there on the third row, please.

Q: Thank you. Mike Mewsow (ph). I've got a question for Ambassador Fujisaki. At the first G-20 summit here in November of last year, the prime minister of Japan – former prime minister of Japan – pledged that Japan is going to extend a loan of \$100 billion to the IMF. As everybody knows, there was a change of government in Japan yesterday. So I guess my question is does this promise by the former prime minister of Japan still stand or has there been any change?

AMB. FUJISAKI: That commitment was extended and I think – I have not heard of any changes. Thank you.

Q: Ernie Preeg, Manufacturers Alliance, just a fact. The U.S. manufacturing industry we project will decline by 16 percent this year. That's related to the position I understand the United States would take at Pittsburgh, namely that the United States can no longer serve as the import of last resort during recovery, when others can pursue export oriented growth. It's particularly related to China, where the big imbalance is.

But my question here is rather, assuming U.S. takes this position in Pittsburgh, will we get the support of others, such as Europeans, Japan, South Korea, to some form of commitment that recovery should not be based on export oriented growth that would lead to a bigger U.S. deficit and in fact a real challenge to any recovering U.S. manufacturing sector?

MR. DUK-SOO: I think you raised the quite relevant questions. As we recover from this global economic crisis, we know all very well that last four years or five years of rapid growth, mainly due to export, actually will not be the real moment and may not be the real moment of full growth in the future. That means – I do not mean that the role of trade is somewhat downgraded. Trade is still very important in pushing for growth. It's a really interdependent world and globalization will certainly walk in that way. But we know that the overall aggregate demand of the world will certainly be less than the bubble years.

So the Pittsburgh has one of its top agenda for G-20, which includes all the relevant countries, including United States, China, India, Korea, Japan. And they will discuss on what will be the high, stable, sustainable growth framework in the future after the crisis. That is very important. It includes a lot of macroeconomic policies, but also some kind of how to enhance the potential growth rate which will require some kind of structural reform, balancing between the domestic and the external demands, and also some kind of rebalancing among the major players on the global economy.

So they will discuss – there are some suggestions – Korea, Australia proposed some three-stage some kind of solution for that and there's also some proposal by Germany, the charter for sustainable economic activities, and also there is one proposed by United States as the framework for sustainable economic growth.

So all those are not quite apart from each other. They can find some kind of a common denominator for making the global economy more sustainable in terms of growth and increasing the standard of living of the global citizens.

AMB. CASTELLANETA: As a European country, our position is that we can just rely on the American market to absorb our products, so I think our commitment will be to have a fair world market which any tendencies to protectionism can be avoided and in the same time having an open market, so we can also buy and sell our products all around the world.

And of course, the American economy is still the biggest economy in the world, so it's important for us to have a fair exchange. But important – the basic thing that the world must be an open world for our products produced without to change the rules of the competition, so without subsidies and without some other form of side helping, as you say. So it's – that is the ideal world. We hope that we can reach at least some form of this ideal world. Thank you.

MR. SCHRAGE: Sir Fujisaki?

AMB. FUJISAKI: Just two points. I agree that countries around the table should commit themselves to increase domestic demand. Point two, they have to commit themselves not to introduce protectionism and that's not to go down the slippery slope as well. These two have to come hand in hand. And I was looking around the round, I thought I saw my good colleague Sherpa Gary Edson as well, who worked with me. Thank you.

MR. SCHRAGE: I think there was a question up here in the third row.

Q: Thank you. Patricia Lerner. I'm a senior political advisor with Greenpeace International and I have a question for Ambassador Fujisaki. Thank you for your comments about the new Japanese government's midterm targets. They definitely are to be welcome and this may well be a game changer for the negotiations under the U.N. framework climate convention.

As you well know, there're only three weeks of negotiating time left and as it now stands, the industrialized countries and the developing countries are very far apart. There's very little trust. And finance is considered to be key to breaking the deadlock. So climate finance is on the agenda for the G-20 summit in Pittsburgh next week, and yet in discussions with people close to planning for the event, everybody's downplaying and lowering the expectations for what will come out of that.

And so my question to you is, is there some way that the Hatoyama initiative might invigorate the discussion and try to get some recommendations coming out on governance and scale and mechanisms of finance so that this can inject some momentum in the talks, which are in crisis? Thank you.

AMB. FUJISAKI: Thanks for the question. First, the new prime minister has to make his position known in New York. What he said was before becoming prime minister, I think, if that – but that of course will be reflected. He said, yes, we'll aim at 25 percent provided other countries would do that. But that was not as a prime minister. So let's see what kind of priority – position he will take.

As for the Pittsburgh finance issue, we have been supporting to take up this financial issue in the climate change and I think that position will not be changed. But as someone has said the new government has come in just yesterday. So it's a little too early for me to sort of explain the position at this juncture, but I'll try my best.

MR. SCHRAGE: In the fourth row from the back.

Q: Hi. My name's – (inaudible) – Strauss (sp). I appreciated the comments of the ambassadors. In particular, I noticed there were some comments which justified the existence of the G-8 and that's a change compared to most of what we hear in public discussion and international discussion. And I wonder if you could pursue that a little bit with regard to a

couple of questions. First, the G-8 is under attack, not just for what it does or doesn't do, but for what it is, that it's the rich industrialized countries.

Is it wrong or right for the rich industrialized democratic countries to talk with each other? Is there a good thing in that or are we the bad people of the world who really shouldn't talk to each other? I think that ought to be addressed directly. If you think we're not so bad, it might be worth explaining why because there's an awful lot of discussion based on the assumption that we are the bad guys of the world. Mr. Lula has given voice to that, for example.

Second, regarding the related issues of OECD and IMF, should the OECD be abolished as an institution of likeminded first world countries, or is it worth keeping it that way and not letting in every large third world country also? And regarding IMF and governance, is it true that the world balance has shifted? The main shift I can see in the world balance is that the Soviet Union no longer exists. That has been the one really big shift I've seen in the lifetime of these institutions.

Regarding OECD or the first world's weight, it is greater as a part of world GDP than it was in the '60s or the '80s. So I don't see this shift. I wonder is it real? Isn't the IMF already giving some weight to PPP factors in its weightings, which already distort the balance somewhat toward the third world? Would it really be advisable to distort it further, compared to the actual economic weights? Those are my several questions.

MR. SCHRAGE: I think those are interesting questions. I think one of the dynamics that he has touched on is the tension between elite organizations and selective organizations versus representative. So I would – (audio break).

AMB. FUJISAKI: I will just make myself short because we have three big questions. I will take just only first one. I thought there was some reason of existence, *raison d'être*, in G-8 in coping, for example, with the infectious disease, debt relief amongst those donors. And that was only possible if the donors tried to put in their position, but I know that there are some different views as well. But I will just limit to my first point.

MR. SCHRAGE: Anyone else? We've got time maybe for two more questions. I'd ask you if you could please keep it to one question, given the time. And I will take them both and then ask you to comment on the two questions. Why don't we go – the woman four rows back there?

Q: Thank you. (Inaudible) – Chinese reporter from 21st Century Business Herald. The question is also about trade, but more looking at the short term. The first important trade policy decision that President Obama has made is to impose a tariff on Chinese tires and this has raised concerns worldwide of a possible trade war in the future.

So I want to hear from the ambassadors, do the G-20 leaders – should the G-20 leaders make a stronger commitment when they meet to assure that a trade war will not happen and to assure the world against protectionism measures?

MR. SCHRAGE: Okay. Thank you. One additional question, please. We could take it at the same time. Right here in the front, the gentleman on the right.

Q: Hello, Robert – (inaudible) – with International Investor. I was surprised we didn't hear much at all about financial reform, regulatory reform. Can you each comment? Is there a single reason why we won't believe that another crisis could unfold in three or five years? It seems as though the G-20 has taken very little action in this regard. What do you hope to get out of Pittsburgh in terms of concrete proposals that will prevent a crisis in the future?

MR. SCHRAGE: Either both of those questions. Ambassador Han?

MR. DUK-SOO: I think on some kind of financial regulations which may prevent some of the recurrence of the crisis, I think the agreements made in Washington and London are well underway. There are some other issues which need further consultations and G-20 is very active in making those consultations leading into some concrete results. And there are also some institutions engaged in that.

And I think – in that area, I think G-20 can make some consultation with very good results. The question is, if we agree on that, then how will that be translated into domestic actions? Sometimes the domestic actions is not very clear and sometimes diverge from what we agreed at such a forum as G-20. That is another issue that we should deal with, including all multilateral financial institutions and all that.

MR. SCHRAGE: Ambassador Fujisaki?

AMB. FUJISAKI: Can I comment on this trade point? I think, as I have already said, I think leaders have to take a strong position on not to introduce protectionism. At the same time, it's very unlikely that G-20 leaders or even myself would comment on anything that is happening in bilateral context or individual cases because these have to be discussed with facts and findings and without having those as a third party. Usually you would not do that. Thank you very much.

AMB. CASTELLANETA: Yes, as you know, European Union is – its basic position is to, as I said before, open market, so against the protectionism. But we have to understand what is – what the intent for open market is – a market without any hidden subsidies, no unfair commercial practices, not just a question of the final prices of products. It's what is – how you get to form price on your market. So that when you say open from open border must be real open, not just the final imposition of taxes. That is our concept of a free trade and a free market. Thank you.

MR. SCHRAGE: I'd like to thank all of our ambassadors here and hope you will join me in thanking them for their excellent remarks and also for their leadership on these issues over the years in helping address the crisis and chart a way forward. Thank you very much. (Applause.)

(Break.)

MR. SCHRAGE: Well, thank you for joining us. I think, you know, one of the things that Dr. Hamre, the president of CSIS, has talked about is how so many of the issues today are horizontal but governments are vertical. And I think Sherpas, and one of our goals in convening them have probably a better perspective both of the difficulties in organizing the U.S. government to address things but also in terms of working together to confront multilateral issues.

And we're really pleased to have here at this first Sherpa summit some of those that have been here at some of the most critical junctures for the G system and showed real leadership through that process. And I've had the pleasure of working with, I guess, three of the four, and one I know very well from reputation from his great work under Secretary Rubin and also someone that we hear a lot about these days, Secretary Summers, who is immersed deeply in this – the midst of this global crisis.

So I'd like to briefly introduce them and ask them to make brief remarks from the table and then we will turn to the crowd for, again, for your questions on these various issues.

Gary Edson I've had the pleasure of working with in different capacities. And I think as I've talked to many Sherpas, many have commented on both his kind of leadership and his vision and creativity in addressing many issues. And he was there at a very critical juncture as the G-8 confronted the attacks of 9/11 that transformed (them ?) in many ways and brought a new focus on security and other issues. But I guess as a Renaissance man, Gary also broke new ground in terms of PEPFAR, in terms of some of the global development issues that were launched during his time as Sherpa at the G-8. So it's a pleasure to have him here with us today and also to tap into his expertise as an entrepreneur and a business leader as well. So we very much welcome you today.

Second, to his left, we have Jeff Shafer who was undersecretary of the Treasury for International. Again, as I mentioned, served under some legendary officials at some very critical times as we struggled to adapt to the wake of the Cold War, the Asian financial crisis, and the kernels, he said, that the G-20 hadn't been quite launched while he was there but the inklings of what would become the G-20. He also has phenomenal business experience including working at Citibank so has the added perspective of seeing the global financial crisis from the frontlines which I think will be invaluable in this discussion.

Next, we have Dan Price who is in many ways the father of the G-20 leader summits launching them in the wake of the global financial crisis, moving forward with this bold reform plan, and also having been a leader in trade both at USTR where I'm pleased to see that we're joined by Ambassador Carla Hills who contributed – both Dan and Gary in a sense from her team at USTR and kind of a legendary period for U.S. trade. So we're very honored to have Dan here and to hear his perspective.

And last but not least Ambassador Al Larson who I've also had the great pleasure of working with. I believe Al may have been the only ambassador that – the only under secretary that was retained between the Clinton administration and the Bush administration which, I believe, shows how indispensable he was to these processes. And as we were talking today at

lunch, we were talking about Sherpas and kind of the – what that means and he actually said he started out as what was known as a yak, supporting a Sherpa, in the Carter administration. So he's seen this from very many different perspectives and how it's evolved and he's been a real leader including in many development initiatives including the Millennium Challenge Corporation and taking a new approach in some of the biggest issues that the state department deals with including climate change.

So with that, I'd like to turn it over to Gary and for brief comments from all of our Sherpas, ask them to focus on, again, what they think is the most important issues facing us as we face the Pittsburgh summit and also based on their experience, where they think the G system and international coordination needs to go from here so thank you very much.

GARY EDSON: Thank you, Steve. I'm really pleased that you decided to have the ambassadors' panel go first because it proves what I've been claiming for a long time which is that at least in some countries, being Sherpa is considered an honor – (laughter) – which reminds me of a very vivid recollection of a National Security Council meeting in the White House Situation Room and the G-8 issue arose and somebody in passing made reference to, quote, "our Sherpa," at which point, the Secretary of Defense Rumsfeld leaned back, looked at the ceiling, and asked of no one in particular, what the hell is a Sherpa?

Until then, I don't think I truly appreciated the meaning of the word "mortified." (Laughter.) But I believe that shortly before I lost consciousness – (laughter) – I replied, beats me.

Of course, the real honor of being a Sherpa was serving alongside people like Al Larson – we didn't have the honor but one day we might – and sitting across the table from folks like Ambassadors Castellaneta and Fujisaki and being succeeded, eclipsed by people like Dan Price and Mike Froman.

As Ambassador Castellaneta mentioned and as folks have made passing reference to, the G-8 has been shaped by crises. It was born, if effect, out of the oil shocks and economic crises of the 1970s and is now being reshaped, potentially erased by the current economic crisis. In between, as Steve mentioned, of course, came 9/11.

As President Bush said at the time, in great tragedy there's often great opportunity. I like to believe that we – and I mean that collectively, the G-8 collectively – took that opportunity and used it to remake the G-8 for the better.

First, we made the outcomes, or tried to make the outcomes, more action oriented moving the G-8 from conversation to commitment, and from posturing to promise making. Of course, promise keeping became a challenge then and still is but the shift to action, I think, was significant.

Second, we expanded the agenda beyond the traditional economic and foreign policy issues to directly address key security, national security concerns, even some very tough and

technical ones. I want to add, in light of Ambassador Fujisaki's new role, that in 2003, we expanded the APEC agenda to include specifically include security concerns as well.

Third, recognizing in the wake of 9/11 the link between security and development, that failed states and impoverished nations can become pray to internal conflict as well as external terror. We expanded the agenda to address key global development issues from famine relief and food security to HIV and malaria – and AI can speak more to that.

And finally, as a consequence of all these changes, we expanded the circle of engagement to the point – the question about the G-8 being a rich man's club – we expanded the circle of engagement to encompass through so-called outreach, not only the poorest developing nations but also the emerging powers.

In that course of events, I view 2002 and 2003 as watershed years: the Canadian hosted Kananaskis Summit in 2002, and now we're in 2010, approaching the 10 years after that. The Kananaskis Summit produced significant action plans on transportation security and nuclear proliferation.

By the way, you mentioned Ambassador Hills – taking a leaf from her book, there is no action unless you stipulate who does what by when. Madame Ambassador, you set the bar high. We aimed for it. We didn't always achieve it but I think, if you look at what came out of that summit, it's a significant shift from prior summits.

Kananaskis has also produced the G-8 Africa Action Plan which replaced the old donor-recipient paradigm with the notion embodying in the Millennium Challenge Corporation and the Monterrey Consensus, of a true partnership between developed and developing countries. As an aside, I think the Canadian Sherpa at the time, Ambassador Bob Fowler, deserves enormous credit for the success of that summit.

At the French summit the following year the agenda was expanded to directly address clean energy and environmental concerns including climate. And the outreach was expanded to include virtually all of what are the G-20 countries.

As a result of those changes, I think the G-8 became a more robust and action-oriented vehicle. I think it also became a flexible one with a de facto membership that expanded and contracted depending on the issues; in effect, form followed function.

In conclusion, let me just say, if the G-8 should be replaced by a G-20 or a G-X – and I'll let the others speak to that – my prediction based on my own experience is that the altitude at which Sherpas work will approach the death zone, the supplemental oxygen will absolutely be required, and the need for patience will go well beyond whatever I could show or did muster.

Thank you.

MR. SCHRAGE: Secretary Shafer.

JEFFREY SHAFER: Twenty years ago I wrote that one should ask not what G-7 Summit decides but what direction they point in. The summit is only one point on a landscape through which we must find our way. And I believe this is the right way to think about the Pittsburgh G-20 Summit that's coming up.

The contours of the international political landscape have changed a lot since I wrote that. One of the most significant legacies of the recent crisis was to create a G-20 Summit that now towers over what I had thought was a long outdated G-7, G-8 summit structure.

The G-20 Finance Ministers and Central Bank Governors meetings which were created in the late 1990s have consequently come to occupy the critical path to these summits. And another 1990s innovation, the Financial Stability Forum, which proved a disappointment in failing to identify the systemic risks that were realized with such tremendous force over the past two years, has been reconstituted and hopefully invigorated as the Financial Stability Board and is reporting to the Pittsburgh meeting.

My observation still holds; I hope for a clear sense of direction but expect little by way of really important, concrete, operational agreements to come out of Pittsburgh. And I don't think this should be seen as a disappointment.

The meeting has not even taken place yet but it has already played an important role in providing a goal to those following the path through the valley, over the foothills, and up the slope to this summit.

The work has been going on in a number of groups including the G-20 finance ministers and central bank governors, the Financial Stability Board, the IMF and World Bank executive boards, the Basel Committee of Bank Supervisors and others. This is all important work. And they've been responding to directions given at the previous G-20 Summit in London, in April, and I expect there will be a sense of moving forward from the groups that have been working and that will deliver reports.

The big accomplishment of this meeting will be the revived confidence in the global economy. The London summit took place at a time when fear seized markets and the public. We've almost forgotten how frightened we were in April. Stock markets had been on a vertiginous slide until just two weeks earlier and no one knew whether it was over or not. U.S. housing prices were falling at an undiminished rate. The most recent data show global trade falling faster than anyone could remember. And there were few, if any, anecdotes to suggest an end. Jobs were disappearing. In retrospect, the meeting took place at about the darkest day.

Policy action had been taken to counter financial distress and economic contraction with international consultations playing a role – I think an important role – going back to the G-20 Finance Ministers and Central Bank Governors meeting in October of last year and the first G-20 summit in Washington in the following month.

Governments have been lenders of last resort – that is they've done quantitative easing – and they have been spenders of last resort – that is they've done financial stimulus.

These policies have gained traction and the results are visible. Banks are again willing to do business with one another and the spread in the inter-bank market has come down. Global bond markets are wide open and attract the rates for the issue into both investment grade and high-yield bonds. Equities have rebounded. With U.S., European, and emerging market industries all up by roughly 50 percent from those dark days in March.

Housing prices in the U.S. have leveled off and sales are picking up. Economic activity is visibly strengthening with indicators pointing to surprisingly strong third quarter growth in the United States, with China gaining further momentum and growth resuming in the euro area, the U.K., Canada, Brazil, Korea, and elsewhere.

The heads of state and government will deservedly call attention to this turnaround, but it should mark a transition in their efforts not a declaration of victory. The main things to look for in the three areas of focus for the meeting or the three areas I would focus on for the meeting are as follows.

First, sustaining recovery. Leaders are unlikely to make the mistake of concluding that the recovery is assured. The growth we are sensing now is largely the upside of a violent inventory cycle, and looking beyond this quarter or next, growth is at risk of falling back in most countries as consumer and business caution restrains consumption and investment demand.

So there is going to be the need for continued demand support but if we look further ahead, there are a lot of countries led by the United States, the U.K., and Japan that have fiscal trajectories that are simply unsustainable and bear the seeds of future crises. A credible focus on this challenge is also critical.

And related to this is the need for commitment to do what is required to continue to narrow huge current account imbalances. They will widen again with disastrous consequences if leaders take a business-as-usual approach. And while it may be too soon to rely solely on the recovery provided – the financial system to provide adequate credit intermediation channels plans to reverse the quantitative easing that central banks have done in orderly way will have to be formulated soon in order to maintain confidence that the world is not headed toward inflation.

Central banks are and should be independent but encouragement from the leaders to prepare for reversal is important to reassure markets. So we need a coordinated exit strategy planning process that the leaders focus on. And this message would strengthen confidence that demand support will not be withdrawn prematurely but that processes are in place to shrink the outsized imbalances.

At the same time, as others have said, there has to be intention on the fundamentals going forward for prosperity that is attention to the international – protecting the international trade regime, investment regime, and domestic reforms.

The second area of focus is financial reform. Last October I thought it was premature to address seriously the reform of the financial supervision and regulation. And even in April it

was difficult to look beyond the immediate crisis, the task of building a more stable global financial system. But now is the time. National authorities have had an opportunity to draw lessons from the crisis. Specialized groups like the Basel Committee and the Financial Stability Board do have work to report and the public debate is in full swing.

And the stakes here are high. Financial regulation is and realistically must be a responsibility of sovereign authorities – and that leaves some ambiguity as to what can be done within the EU and the euro area but this can't be done by a global group – and national governments, because national governments have the accountability and the fiscal responsibility that's essential for legitimacy in this area.

But the markets are global and so two of the major institutions that take part in them. So the tension in this inconsistency can only be contained if there is strong and deep global cooperation and coordination. And if we're cast to go forward, then the specific agreements have to be reached in more technical groups than a summit.

And the four areas in which I understand the FSB will be responding on, where internationally coordinated approaches will be especially important to create a stable financial environment for the future are: first, coordination of systemic oversight to identify threats – we need a global view from those whose job it is to recognize what could go wrong.

Second, coordination of oversight of systemically important global financial institutions – this is critically important to effectively identify and contain risks. As somebody who works in one of these institutions it's all so critical so that we can serve our clients without encountering inconsistent and incoherent requirements from different authorities.

Third, resolution procedures for global financial institutions have to be worked out. U.S. authorities have recognized the need to have means to take over financial institutions in addition to banks in ways that provide a more favorable tradeoff between taxpayer expense and systemic stability than we can have now or that we had last September when we went one way with Lehman and the other way with AIG, both of which were very (conflated ?).

Since the relevant institutions are likely to have multinational presence, this is going to be an important area for international cooperation.

And fourth, we need a global approach to capital and liquidity. We're beginning to see a proliferation of local capital and liquidity requirements that runs a risk of creating national silos. This will mean higher credit costs everywhere, a much higher and more unstable cost in some markets especially for global businesses that need the services of global institutions.

Capital and liquidity requirements need to be reassessed in light of what has happened but, if this is done country by country rather than globally, the result will be greater financial rigidity.

Now the agenda is much broader than the points I've identified, but there are some important financial issues – derivatives, market regulation, for example – that are much – too

technical I think to be more than flagged at the summit level. And some others carry more political weight than import for the future stability of the system, and how much I'm going to get paid, for example, I would put in that category.

The areas that I have highlighted are the ones where the leaders can do most to improve financial stability and strength by giving direction to the export groups that have to carry this work forward.

The third area that I'd focus on for this meeting is the international architecture. The reform of the IMF and World Bank governance will be on the agenda and it's long overdue. I tried to give this some impetus when I was at the Treasury in the early 1990s but made very little progress.

The crisis has given glacially moving reform some impetus. But the critical needs are to re-weigh governance structures to reflect the large changes in global economic and financial power that have taken place.

And I disagree with the person who asked the question over here who says it hasn't happened. If it hasn't happened yet, it will happen within a quarter or two that China will become the second largest economy in the world without taking PPP into account. And nobody can say that they are rightly reflected. It is Europe that is way over-weighted institutions currently.

But the need to address this and to bring the governance to these institutions in line with reality is important. And there is a risk that as a crisis passes the momentum behind change will run down and the G-20 summit, which has brought emerging market leaders to the table, can play a critical role in keeping this from happening.

These are the key directions that I'm going to be looking to the Pittsburgh meeting to provide direction on. We've got to keep our eyes on what happens on the slopes and in the valleys between summits. This is where the FSB, the Basel Committee, the IMF, the World Bank, this is where the essential ingredients on cooperation I think are going to have to be worked out. Thank you.

MR. SCHRAGE: Secretary Shafer, thank you for those insights on financial markets.

Next we turn to Dan Price who, again, as the first that launched the G-20 summits, I think has an unequal perspective on how they regenerate potentially the way forward. Thank you.

Thank you for joining us, Dan.

DAN PRICE: Thank you, Steve. I think it's still too early to decide whether I wish to claim parentage. (Laughter.)

What I'd like to do is address three things. First: why G-20? Why did we decide to have a leaders' level at G-20 in the fall of 2008? Second, ask what are the merits of that forum? What

have these summits accomplished – give an overview of that? And third, what are the current challenges, and particular some of the challenges that will be faced at Pittsburgh but challenges to the functioning of the G-20 at leaders' level?

First: why G-20? Cast your mind back to the fall of 2008 not that long ago. Virtually every day in many countries there was breaking news of failing or stressed financial institutions, declines in stock market indices. It was a crisis where event after event was breaking, certainly in the major financial centers but more broadly.

And there was a sense, if not of panic, broadly in the globe then certainly a great deal of uncertainty and concern about where the bottom was, what the repercussions would be, and how were we going to manage ourselves to deal with what first appeared to be a financial crisis but was rapidly morphing into a more broadly based economic crisis.

President Bush decided that it was going to be important to gather leaders together to address this. The question was: when do you hold a summit with events breaking on a daily basis? And the finance ministers, whose input would be critical, pretty much preoccupied on a day to basis with other things – so when do you hold that summit and who should be there?

Some of our European colleagues believed that the summit should be held among a relatively small group of countries, say, the G-7 or G-8 plus a few major emerging markets.

The president felt very strongly that a leaders' meeting had to be broadly representative of both developed and developing countries; after all, while the crisis may have been felt at that moment principally in the developed world, it was rapidly affecting developing countries as well. So too for legitimacy purposes, any blueprint for economic or financial reform in order to enjoy broad support needed to be endorsed, discussed and endorsed by a broad group of leaders.

So after his consultations with a number of heads of state, the president announced the holding a leaders' summit among the G-20. And why G-20? It was a broadly representative group. It was a group that existed. It had the merits of not having to decide ad hoc who should come, who should not come. There was some institutional history among the finance ministry channels, as they had met annually since 1997, so it made sense as Ambassador Fujisaki, I think, said as a matter of first response to hold this at the G-20 level. So that's the origin.

What were the benefits of doing this? I would say two things. First, look at the deliverables from that initial Washington summit. It was a broad statement of principles and a 47-point action plan laying out specific actions in the financial regulatory reform area and reform of international institutions. We had about roughly four weeks from the time the summit was announced until the time it was held to put this together.

And in a certain sense – we had Mike Froman at lunch. I feel bad that Mike Froman has had so much time, right? There was something about the compressed timeframe, the real sense of crisis that helped bring countries together. How else would one have imagined that such a diverse group of countries in such a short period of time would express support for open and competitive markets, for the importance of private property and respect of rule of law, for

rejecting protectionism, rejecting taking measures, even if permitted by the WTO? How else could one have expected such rapid consensus on reform of international financial institutions?

As Jeff said, this issue had been around for years – or the expansion of the Financial Stability Forum to the Financial Stability Board? Importantly, having the involvement of the major emerging countries as well as other developing countries changed the dynamic of the discussion. It was no longer – as summits often are – characterized by just transatlantic tiffs. And I would say that the major emerging market Sherpas at least in the discussions among Sherpas played a very constructive role in moderating the tensions either among European countries or between Europe and the United States, and as the host Sherpa, I certainly welcomed that.

And also, a number of critical insights came from the emerging market participants. You will recall in the Washington summit declaration that there's a cautionary note about the risk of overregulation and the risk of an overreaction to the crisis. That was put in there by the representatives of the major emerging markets who said, we know how you are in the West. You have a crisis, you overreact, and in the end it's we, the developing countries, who suffer from your overreaction – very, very helpful. So I would say there are many benefits to having a leaders' forum address global financial and economic issues at the G-20 level with such a representative group.

Let me take a moment and talk about some of the current challenges. And as I say, current challenges for the G-20, not just for Pittsburgh.

The first is accountability. What are the mechanisms that you put in place to ensure that you keep the promises you've made, whether those promises are in the form of writing checks or in the form of not enacting protectionist measures? What body, what entity is seized with responsibility? And how do you ensure that you actually carry out what you say you're going to do? Including in the regulatory reform area, how do you ensure that where you've agreed a set of principles whether it's on capital adequacy or liquidity or bringing derivatives onto exchanges, how do you ensure that the resulting domestic legislation is consistent with those agreed principles? So first is accountability.

The second, I think, is protectionism broadly defined, not just trade protectionism but a general turning inward on recovery and reform efforts. We're by now familiar with this in connection with economic stimulus plans that may favor local products, that may favor the purchase of local products, or subsidize local purchase, less familiar but growing evermore present are protectionist measure in the financial regulatory reform area.

As countries begin the process of addressing systemic risk and pushing forward on financial recovery, too often they're looking at it on a solely national basis. With the consequence that, for example, the Swiss have adopted leverage limits that exclude from the leverage calculation the entire domestic loan book. That discourages lending abroad. The Europeans have adopted or proposed regulations on investment funds that say, if you want access to the institutional investors in Europe, you must be physically present, authorized, licensed by us.

So what we see in these things, in effect, is a de-globalization that, notwithstanding all the good statements about cooperation and the need to work together that when it comes to the tough stuff of regulatory reform or economic recovery, there is that urge, there is that political urge to do it without regard to its impact on global capital markets or global supply chains.

Final risk and this is a risk before any summit: there's really, really important work to do. Jeff outlined, I thought, very well the important work to be done on institutional reform, regulatory reform, charting a new approach to sustainable growth.

But it's always the case before each of these summits, there's some drum beat on an issue that bears only a marginal relationship to the real work of reform. Before the Washington summit it was about unregulated hedge funds. Before the London summit it was about tax havens. Before the Pittsburg summit it appears to be about bankers' bonuses.

Now, while all of these are legitimate topics for discussion, I don't think anyone would agree that these particular issues were principal causes of the crisis. Compensation is but a piece of the puzzle and, I would suggest, not the most important piece.

But it's also a piece on which there is a great deal of consensus. The FSB has adopted principals that I think are broadly shared on compensation that aim at the issue of risk, that discourage excessive risk taking, that tie compensation to the longer term performance of the enterprise, ensure that compensation is paid out overtime, subject to call back if performance deteriorates. But to kind of go further and advocate an absolute cap either a number or a fixed ration – fortunately President Obama and his advisers are on record opposing that and rightly so.

So, as I say, the final risk is that there is the possibility is you run up to these things that something like hijacks the attention and becomes a distraction from the important work of reform.

I'll stop there. Thank you.

MR. SCHRAGE: Thank you, Dan.

And now we turn to Ambassador Al Larson who has, I think, a terrific perspective from so many different angles seeing he's been through so many administrations, through this work in the OECD, working with many of these governments.

And I look forward to your comments. Thank you very much.

AMBASSADOR ALAN LARSON: Thank you very much. I would like to broaden the lens a little bit and talk in a more general way for a few moments about why the G process has played such an important role in the governance of globalization and why it will continue to in my estimation.

The G process has been responsive to new challenges and it has addressed over the last 30 years exchange rate issues, international poverty issues, international security issues after 9/11, and energy security issues.

It has been a less formal process than many, and one of the things that is most notable about it is that leaders and Sherpas engage in real discourse and real negotiation unlike what happens for the most part in the United Nations.

And there's an anecdote about President Reagan going to his first summit and being shocked that people were starting to talk about the communiqué even though the meeting had just begun. And he sort of rightly said he thought that this was a little bit out of sync. Now, the fact of the matter is, draft communiqués have been written and will continue to be written for the most part before the meeting but Sherpas. But what President Reagan, I think, was rightly stressing is let's have a real exchange. Let's not sit down here and try to wordsmith a document. And when that principle has been respected, the quality of discussion in these fora has been tremendously valuable in finding your way towards a good solution.

The accountability factor has been good at times, poor at times. I think Dan is right to emphasize it as a crucial factor going forward and it's something that my organization, Transparency International USA, has been prodding on and will continue to do so.

Without getting too historical, I wanted to just comment a little bit about some of the types of issues that have been taken up in the G process.

During the Carter administration, the first summit that I remember working on there was a tremendous focus on oil import, ceilings and targets because the issue then was how do we collectively reduce our dependence on imported oil in the wake of the oil embargos and oil shocks of the 1970s?

We can't agree on a universal import limit. We're not going to agree on a collective oil import tariff. But can we agree on what we each will do, what we think the result of those policies will be in terms of reduction of oil import dependence, and have a mechanism to keep ourselves accountable. Far from perfect solution but it frankly maintained cohesion at a time when cohesion could have been lost.

During the Reagan administration there was a focus on economic growth issues, again, a topic that is not going to go away and on currency issues, the high value of the dollar. And I remember having very detailed discussions at heads' level, at the president, prime minister level about structural adjustment, the need for economies to be flexible and responsive to change.

During the Bush administration, Bush One, I was in Paris for the most part at the OECD and it's interesting to – you know, Jeff Shafer mentioned the role of other international organizations during the valleys between summits. I found that the work that the OECD did on issues like unemployment policies, policies to make economies more responsive to economic cycles and to be able to help the unemployed get back into the workforce as quickly as possible to be a very significant contribution that fed in very helpfully to the summit deliberations during

that period. And in many of these organizations – and the OECD was no exception – you both made a very big contribution to the work of the summit and you took close account of what the summits said because it helped give you a sense of what action plan might be best for your organization to ensure its relevance to the major issues of the day.

During the Clinton administration a lot of the focus in summits began to shift to issues of development. It was a deep concern about issues like the digital divide, you know, we're going to dot com boom and everyone thought this is great for us but developing countries asked: how do we benefit, how do we ensure that this can contribute to our development prospects?

The other big issue that emerged and I think was dealt with to some extent effectively was the issue of infectious disease mainly inspired by the HIV/AIDS crisis. During the Bush administration, under Gary's leadership, we actually got I think significantly more progress made on some of those issues.

Gary's already spoken about the response to 9/11. I'll only second what he said and say the summit in 2002 at Kananaskis was the first summit and the only summit I ever attended that was actually in the mountains. And I think that the results that came out of that not only did a terrific job of setting out an agenda but ensured, helped ensure that this wasn't an issue that created unnecessary divisions.

You know, people, economists like me like to talk about global public goods, things that, you know, their character is such that even a country as large as the United States can't consume them without working with other working and without some burden sharing, and also global public bads, things that you can't prevent even a country like the United States on your own. You have to cooperate with others and to the extent that free riders aren't cooperating it's very costly to the international system. And there's a very real sense in which the G process is dealing with global public good and global public bads and trying to find out cooperative solutions to those problems.

I think one of the other major developmental initiatives that was notable during Bush '43 was the work that was done on infectious diseases and particularly in the Rome summit of 2001 on the Global Fund. This was a really good example of a situation where people at this very close range that Dan and Gary and Ambassador Castellaneta and Ambassador Fujisaki know so well, where you hammered out, not agreements that were internationally binding but understandings that created some common ground among players that would have to play the leading role in pushing for international consensus on these issues. And I think that's the great merit of the G process.

Looking ahead, I wanted – I said earlier, I think, for better or worse, something like the G process is going to continue to be an important necessary part of governance of globalization. I'll give two examples.

You know, I talked about back in the Carter administration the focus on energy policy. We're now in the run-up to Copenhagen and to a major international conference on how we deal with the challenge of global climate change and the way that energy policy fits into that.

I don't pretend to know how to read the tea leaves either on Copenhagen or what's going to go on a few blocks from here on Capitol Hill but there's increasing talk about the fact that we may not have a climate legislation this year. We may go to Copenhagen without that.

And I can easily imagine that part of the path forward could turn out to be a process where a G something group gets together and tries to figure out, well, look, we're not all going to be able to do the same thing immediately because our domestic political situations won't permit that but what can we do that is pushing in the same direction, that's broadly consistent and certainly not incompatible? How do we measure whether we're following through on those commitments, be they policy commitments or some other commitments? How do we measure the results of those commitments so that we have an accountability for what we're doing? And how is that perhaps a pathway towards a sort of more comprehensive and more elegant international framework on dealing with energy and climate? That's not a prediction but it's just sort of a statement of the way in which a G process can be very helpful on other future major problems.

We've already talked briefly about economic and financial issues of the future. I'm in the optimistic camp that we will work our way, that we are working our way through the current crisis successfully in substantial part because of the ability of the G-20 process under the leadership of Dan and now Mike Froman to keep the international, the major players more or less on the same path forward when it comes to fiscal stimulus, monetary stimulus, financial regulation, and avoiding protectionism.

But we still have to have growth. We still have to deal with the problems of the large U.S. deficits, fiscal and current account. We have to deal with international imbalances. And it's not inconceivable that we'll have to have another summit that's really focused on some very, very tough currency, current account imbalance issues and it's quite likely, in my mind, that if that future arrives that it will be a G type process that will lead the path forward towards a solution not to a solution but in the direction and towards a solution. Thank you.

MR. SCHRAGE: Thank you very much for all of your comments. Before I turn it over to the (panel ?), I'd like to raise one quick question. There's kind of the G-20 process was born out of this global economic crisis where many people believe we could have headed over a cliff towards a next Great Depression. We know we've had extraordinary fiscal and monetary actions that have staved that off but now there are voices saying that as the political momentum dies down we're not doing enough robustly or quickly enough to prevent a financial crisis 2.0 or a W-shaped recovery.

In your opinion, are we doing enough both substantively and quickly enough to avoid that kind of risk? And if not, what should we be doing about that?

MR. SHAFER: I mean, it's my view that one has done – one has been enough and as much or even more than one could realistically expect up until now. But this is a transition point. As I said, in April we were just in desperate straits. Now there is some sense of stability and the question is do we just pretend like it's over and go about business or we recognize that

we have all of these very serious problems still in front of us and we focus on those? And I think we'll have to see what happens in the next six months to a year to see whether we do that or not.

MR. PRICE: I agree with those who identify the improvement in the global economic situation as a risk to reform efforts. As I said, I mean, I do not think we would have been able to reach consensus as quickly as we did on both principles and specific action points but for the pressure of the crisis.

And the fact that things are looking up does not mean that implementing the agenda is less important but it will have less of a sense of urgency and that is a problem.

And one of the key things to come out of Pittsburgh will be a renewed demonstration of political will among these leaders to implement that reform agenda.

MR. SCHRAGE: (Inaudible, off mike) – in sense, I guess, to paraphrase Rahm Emanuel to make sure we don't waste a crisis in terms of using it to solve some of these that are out there. With that, I'd like to turn it open to the crowd. The one right here in the second row.

Q: Thank you. My name is Paula Stern (sp). Thank you very much for the presentations. They've all been excellent. And I'd like to kind of continue in my question the dialogue that you just started about the implementation phase of the G-20s work specifically when it comes to the trade agenda and the agenda of that organization, the World Trade Organization, and possibly the OECD given the fact that we've got a G-20, it's a different type of a membership.

It's been my view that the WTO has been underutilized, that we only think about as a litmus test of the WTO in the world trading system is whether the Doha Round gets passed. And there are so many other aspects of the WTO in particular with reviewing subsidies that have been put into place as part of bailouts. There are other opportunities, it seems to me, to deploy the WTO as an organization just as we have seen the Financial Stability Board become more robust. We have not seen that kind of growth which I think is important for averting of future crisis and achieving the kind of accountability from these G-20 efforts.

And just my last contribution to this whole thing about what should this be, the G-20, G-8 – I always think this is really a “gee wiz” question. And it's been a pretty “gee wiz” afternoon to.

MR. SCHRAGE: Who would like to address the utilizing of the WTO? We have many people that have worked extensively on those issues.

MR. PRICE (?): Just a very quick comment. In Washington we made the protectionism pledge but we did not seize an organization with monitoring it. That was a mistake. In London, that mistake was remedied and the WTO was seized with responsibility. The question is – Ambassador Hills, you know, you may wish to speak to this. There's a certain ambivalence on the part of member organizations as to whether they want the secretariat blocking them and publicly naming and shaming them. And so I personally think it's a good idea that we need a

robust and rigorous view and not clothed in diplomatic language. But, you know, we'll see. The WTO did just issue its second report or perhaps third report indicating – I think the word used was “slippage.”

Q: Thank you. Andre Cito (ph) from Tass, from Russia. How do you see the international position of the U.S. and of the dollar changing as a result of the current crisis? The question is for all of you. Thank you.

MR. SCHRAGE: Jeff, do you want to take that as a financial expert?

MR. SHAFER: Well, I say – as somebody who started his career in the FED in the 1970s and we were all worried about confining the dollar then. We had some problems. You know, the world is changing. The euro area is about as big an economic area as the U.S. is now. It's only logic that this should be rebalancing of roles there. China is emerging as an important economic weight as well but is far from being able to have a currency that plays an international role given both its market structures and its closed borders.

But if one looked ahead many, many years one could see greater diversification. I don't see – there have been change in the past and there may be changes or may not be in the future. I don't see this as being cataclysmic or leading to any kind of a crisis. I think it's a normal evolution. I do think the U.S. economy will come back from this and will continue to earn a place, an importance place for people who will want to use our currency but maybe not the only one.

MR. EDSON (?): I agree with what Jeff said and I just add two points: one, internationally it is important to address this longstanding issue of global imbalances. Herb Stein once said if something can't go on forever it won't and this is an example I think of that. And there is action for all countries on that score. Certainly part of the action for the United States going forward is addressing long range fiscal sustainability.

Q: Thank you. Charles Harris (sp) – (inaudible). My question is on the IMF voting shares. What will be the strategy from the U.S. side? Will there be a push for larger shares for developing countries? And is so, what kind of resistance will we see from the European countries to that?

MR. SCHRAGE: I know it's a very difficult topic.

MR. PRICE (?): Both the last administration and this administration expressed strong commitment for reform of the international financial institutions to accord proportionate weight to the representatives of the major emerging markets, yes, even at the expense of the Europeans. As Jeff explained, this is slow and painful but I think this administration is committed to moving that forward.

MR. SCHRAGE: I think we had a question right up here in the front on the right hand side.

Q: Michael Martin from Congressional Research Service. I want you to address perhaps the role of being Sherpas in terms of two sources of criticism of the sort of G-X process in general.

One is the earlier panel talked about there's sort of a tradeoff sometimes between the depth at which you can examine an issue and the breadth of the parties involved in the issue. So do you want a G-8 which may be smaller and more depth or a G-20 which gives you more breadth?

I would add to that also the scope of the issues addressed. Mr. Edson, you talked about moving APEC, for example, beyond the economic focus. There's now criticism of that in light saying it's kind of mission creep moving beyond the scope of what the organization was identified to do. So looking within a particular G-X formation, balancing depth, breadth, and scope of the agenda.

Outside of it, some people have been critical of sort of the effort going in prior and to preparation work and then the post-even fatigue basically preventing the existing institutions from really addressing the day to day work that they need to do, that you sort of go from summit to summit to summit and never really can get into the full implementation.

So as Sherpas, could you comment a little bit about the balancing of depth, breadth, and scope of the G summits? And then, second, what about this criticism that the cost benefit analysis of having events of this sort really doesn't mirror continuing?

MR. SCHRAGE: Gary, do you want to take that? You saw a lot of iterations in the G-7?

MR. EDSON: They're good questions. I don't think of it necessarily in terms of depth, breadth, and scope. I think you've got to be honest about the core capability of these groupings.

When I look at trade issues, for example, I remember all the time everybody used to say, oh, we've got to deal with the trade issue at the G-8. The G-8 is not a good place to deal with trade issues. You're not going to argue about agricultural subsidies and the formula for reductions in the G-8. Leaders aren't going to do that. Most it can give a political impetus to it and large political commitment. I actually agree that the place is the WTO for that. And what leaders can do is direct action there.

On development issues, not so much depth, breadth, as the group around the table – when you're in a G-20 meeting, the emerging powers act like recipient countries, not donor countries and you have a sterile debate about development issues. From the standpoint of G-8 versus G-20, for the development community and the poorest countries, the G-8, I think, remains the better forum.

The G-20 is really talking about the emerging powers and middle-income countries plus for Africa, is that South Africa is at the table; the minus for Sub-Saharan Africa is that South Africa is at the table. In point of fact, the poorest countries got more of a voice and more of a hearing and their issues more attention in the G-8 process than they received in the G-20 process.

Climate change – I happen to think that what Dan did with the major economies process is the right grouping and I think that AI was kind of alluding to maybe that's the group that comes together that makes some high level decisions that breaks through to achieve at least some results in Copenhagen.

So I think is a question of countries around the table and having the right group to deal with those issues. The G-8 has proven it can deal with detailed questions of advance passage or manifest exchanges and the details of HIV. The G-20 has proven they can deal with financial stability forum issues. It's the right group around the table at the right time on the issues. It's not a question of depth and breadth, I don't think.

MR. SCHRAGE: Anyone else want to comment on that?

MR. PRICE (?): The one problem that we're creating – we keep talking about the things that are unstable eventually crack. The proliferation of the demands on the times of heads and state in government is really astounding. And one cannot go on much longer and have a president in this country who has a capacity to do what he has to do at home as president. And so, there is kind of a different geometry that would be nice for different issues but somehow we do need to have some kind of overall limit on how much trouble we have for these meetings. I worry more about that than I do about the preparation process. I always find different groups of Sherpas to do the preparation.

MR. SCHRAGE: I think we'll take two last questions and if we can group them together maybe we'll go from the woman in the back and then – actually, I'll cheat and take three. I'll take the one in the back, the man in the front, and then the gentleman in the far back on the right hand side. But if we could, please, quickly state one question, we'll throw them all up to the Sherpas.

Q: Okay. Mindy Reiser – worked in Central Asia and United Nations. I'd like to hear about those who are not at the table. The last comment began to talk about that the developing countries who rely on spokespeople who may not be their spokespeople. And how does this all affect the dialogue and the decision making such that it is in the United Nations? People here talked about highs and lows, truths and summits. How does the United Nations and its processes and its affiliated agencies fit into all of these?

MR. SCHRAGE: Okay. Great. We've got a question right here.

Q: Barry Wood, freelance economics correspondent. Dan, you spoke about a year ago when Mr. Sarkozy and Mr. Brown came to Camp David, what kind of forum did they want and in starting at G-20 as a group which now includes Spain and others, haven't you put in process something that may be too cumbersome to be effective? How are we going to get consensus as time goes on among these disparate countries particularly when you have so many around the table, time they give speeches, there's not really much time left.

MR. SCHRAGE: And then finally at the back. It's Bill Helkie.

Q: Bill Helkie from the Federal Reserve. As Jeff knows, this question will be for him. (Laughter.) Jeff mentioned both institutional reform and the great growth in China and how large China is. As Jeff well knows, we have three important institutions in international finance: capital mobility, independent monetary policy, and fixed exchange rates. Our beloved coauthor has described the relationship between U.S. and China as the new Bretton Woods. Now, I recall you as a close observer in 1971 to '74 and '75 as we were going off Bretton Woods (into ?) problems.

Would you agree with me that it's time to go off this new Bretton Woods since China is too large to on a fixed exchange rate or would you agree with Mike that this is not the appropriate time to go off there?

And I would, as a footnote say, I believe that most of the financial or a great part of the instability in asset prices in 2008 were due to the codependence of monetary policy in U.S. and China and the inconsistent policies being taken.

MR. SCHRAGE: Why don't we have the first two first? They kind of deal with who's around the table and I think it's an interesting question based on Gary's comments about when you select a country to represent a region, you know, like South Africa for Africa or Egypt for the Islamic world and how that plays out. So if anyone would like to tackle those? And then the mechanics of can you have a successful operation with 20 countries around the table? Anyone would like to address – (off mike).

AMB. LARSON (?): I tend to think of these G groupings as sort of efforts to discover where a solution to a global problem might lie. They are not global legislatures and the fact that a country or a group countries isn't there doesn't mean that they've sort of lost their vote or representation. Obviously, there needs to be vigorous outreach. Obviously, you need to listen carefully. But you don't use them to make decisions. You use them to test whether a solution may be possible.

And when I was in government and would have groups come in and complain to me a little bit about the WTO green room process or some other smaller groupings, I'd say, well, look at what goes on in the Congress. There's always small groupings – caucuses working. They said, yes, but that's different. And I'd say, well, what about your own organizations whether it's a religious organization – this is the way that you find where a solution may lie.

And I'm not saying it's perfect but I haven't found an organization that doesn't have a process somewhat similar to it, at least an organization that actually works.

MR. SCHRAGE: Anyone else on the structure inclusion before we turn to Bretton Woods? Bretton Woods – I believe that was directed at you, Jeff.

MR. SHAFER: Well, my good friend and former coauthor Mike Dooley is one of the fathers of this idea we have a new Bretton Woods and we ought to keep it. And I look at it we

had an old Bretton Woods and it didn't work very well and it broke down. And I think in his analysis he's being absolutely right but thought it pointed to a problem that we have.

I have thought that the monetary history of my career which began at the FED in 1972 could be summarized as the U.S. dealing with a series of countries or regions that emerged from backwardness or war damage and who had exchange rates that were appropriate for that environment who were slow or reluctant to adjust to a new reality when they were a full strong economy.

And as economic data shows very clearly need a stronger real exchange rate. First it was Germany then it was the rest of Europe, then it was Japan, then it was Korea, then it's Taiwan, now it's China. It is the same old process. And I don't see it any – you know, and it's a natural process and a natural evolution. It doesn't take place overnight but I think it will take place. It had started before the crisis with more rapid adjustment of the Chinese exchange rate. I'm not surprised that in the middle of the world falling apart that the Chinese authority kind of stopped for a while.

But I think economic forces are going to lead to this process continuing again and it is an important part of this talking about trying to achieve more balance growth going forward.

MR. SCHRAGE: Anyone else or any closing comments?

Q: The question to Dan.

MR. PRICE: Gordon Brown was not at the Camp David meeting. It was Sarkozy and Barroso, as a factual matter, not that that had any impact on the outcome. I explained why the president decided to hold it at G-20. I think your question is, is the group too cumbersome? Is it too big? Do you have it right? It was the right group for November 2008. I think it was also the right group for April 2009 and for September 2009. Whether that continues to be the right group, I don't know.

MR. SCHRAGE: Well, I want to – I hope you all will join me in thanking our Sherpas who have done such great service to the country and we really – (inaudible) – for all these issues today. Thank you very much.

(END)