

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

**PRESS BRIEFING: THE PRESIDENT'S TRIP TO THE G8 AND G20
SUMMITS**

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H. ANDREW SCHWARTZ: Good morning, everyone, and welcome to the Center for Strategic and International Studies. I'm Andrew Schwartz, vice president for external relations here at CSIS, and I'm proud to welcome you here today. I know this is a busy news day, to say the least, so we'll get through this briefing pretty quick.

And, regarding economics, Fariborz Ghadar has to leave a little bit early today so please excuse us for that, but if any questions go unanswered you can always contact me at hschwartz@csis.org or give us a call.

We also have in front of – you should also have in front of you an article by Andrew Kutchins, who is our Russia Program director, that's sort of teeing up President Medvedev's visit here later in the week. Andy wrote this while he was in Moscow, where he is now, but you could also reach him later this week if you're seeking comment. We're going to talk about the G-8 and the G-20. You also should have an edition of our "Critical Questions" series by Heather Conley and Stephen Morrison.

And with that, I would like to introduce my colleague Heather Conley, who is senior fellow and director of our Europe Program, who is just going to set up the tone for this trip. And with that, I'll give it to Heather.

HEATHER CONLEY: Absolutely. Thank you so much, Andrew, and thank you all for coming.

I have to say, my point of reference every time I begin to look at analysis of the G-8, I always begin with the family photo from last year and I see, well, what has changed? We have new faces and perhaps more stress lines on the faces that are still there.

Obviously this year, for the G-8 meeting in Huntsville, Ontario, we have two new faces – the new British Prime Minister David Cameron and the Japanese prime minister. And I'll let Charles talk a bit about the Japanese contribution. But let me, if I may, just very briefly touch on each of the leaders that will be convening at the G-8 summit and sort of their approach both to the substance of the agenda as well as where they're coming from politically.

I think probably the person who has the most stress lines on her face is Chancellor Angela Merkel. She's growing under great stress domestically. Her coalition has been very challenged by a series of domestic issues and obviously the great unpopularity of the bailout for Greece.

But she is also under great stress within the EU, quite frankly, assuming that Germany is not playing its traditional role within the EU, and some are very anxiety-ridden about that. And she will be under pressure today, as she gave some outreach to the press suggesting that, no,

Germany will not be singled out at the G-8, and I think that's an interesting point of clarification. She does know she's under stress.

Last year Prime Minister Berlusconi of Italy provided some very scintillating headlines prior to the G-8 summit in Italy. I think he has taken a much quieter approach, trying to stay out of the crosshairs of the market, potentially, and start doing some difficult austerity measures. But I think Italy – and Lisa will likely touch on this – is certainly probably the most significant underperformer as far as fulfilling its development aid pledges, and I think that will come out and has come out in the report card that has been issued.

In France, it's not just about the World Cup, although that's been a great focus. President Sarkozy has been working very hard to try to improve his diminishing opinion polls – obviously the ban on the burqa, working through the National Assembly, and his own efforts to take the economic helm and be the leader within the EU for an EU-led solution. It's important to note that next year France will be the chair of both the G-8 and the G-20, so I think you'll see President Sarkozy working towards his own chairmanship and that agenda.

Obviously for Russia, President Medvedev will be coming off his visit to Silicon Valley and his bilateral with President Obama. He will certainly be talking about the economy. He had a conversation the other day with French President Sarkozy, mentioning that it would be a great idea if we could enlarge the basket of international currencies, not just focus so much on the dollar. So you may see some dynamism there from President Medvedev.

Obviously, Prime Minister Cameron, his first appearance at the G-8 summit, it will be his first face-to-face with President Obama. It will be the precursor to an Oval Office meeting that Prime Minister Cameron will have with the president next month. Obviously there will be lots of cameras pointed on that first encounter in light of the Gulf oil spill. Mr. Cameron is consumed by his own domestic situation in trying to implement some significant austerity measures.

And obviously Afghanistan – and this is where some of the conversation about the recent news regarding Gen. McChrystal – the U.K. just today had its 301st death in Afghanistan. This is going to be a continuing issue. Cameron was in Kabul very recently trying to ensure a robust British presence there, but this will be an ongoing issue.

And, last but not least, Canada. Prime Minister Harper is the host who, for the first time, is trying to pull off back-to-back G-8 and G-20 meetings. He has done a very good job of trying to make sure those agendas are not overlapping, that they work together. He is under some political pressure himself for the cost of the security of both the G-8 and the G-20. It is over a billion (dollars), more than the security for the Olympics in February.

He is also under pressure for creating a fake lake and some of the atmospherics and the bucolic setting, but it becomes the G-8. But he will be credited for creating – and, again, Lisa will touch on this – a major maternal and child health-care initiative that will be the G-8 signature initiative coming out of this meeting.

So that gives you a sense of how everyone comes to the dance, as it were, for the G-8. And, really, on the economic agenda – and this is just a precursor to what will be discussed – there is more that divides the United States and Europe on the economic agenda than unites it. There is certainly unity on the security agenda and the political agenda but there is actually great disunity on the economic agenda, and I will just give you a very few examples.

The Europeans would like very much to create a global bank levy to pay for future bank crises and bailouts. That's a no-go for the U.S., Canada and Japan. Europe is in the mood for austerity and fiscal consolidation, understandably for its debt crisis. In fact, the Germans have sort of created a preemptive austerity plan, and that is causing some discord. To coordinate how countries exit their stimulus packages will be very important.

In yesterday's call between President Obama and Chancellor Merkel, you started hearing the word, well, we have to "differentiate" our exit strategies, which means, I think, they're having a challenging time coming to an agreement on how and when you begin to end stimulus and start moving to greater fiscal consolidation.

The Europeans very much have a focus on blaming the market for deepening the European debt crisis and they're very focused on trying to prevent market speculation. So you're seeing where Germany and others are focusing on eliminating those elements – naked short selling. They're trying to tighten control over derivative and hedge fund activity. They see the market making this worse and the governments are losing the ability to affect where they'd like to see the outcome.

Obviously the stress test – the fact that Europe has now agreed to do some banking stress tests is a victory – seen as a victory. Questions remain on the rigor of these stress tests. Questions also remain on how transparent they will be. And there is some concern in Europe that if actually we see how bad these banks are, that it may actually cause increased market concerns.

So, a whole bunch of issues. There won't be great – there will be great conversations at the G-8 as a lead up to the G-20 economic conversation but I'm not sure you're going to see much cohesiveness trans-Atlantically on the economic agenda.

And then, finally, we do this annually. We say, whither the G-8? Why do we have this meeting? The G-8 isn't withering quite yet. It still has a robust role in security, development assistance, in addition to consolidating the economic part of the agenda. I mean, if you recall, in 1975 the G-5 was created to talk about the economic crisis of the oil shock, and it grew and grew into a broader agenda which dealt with security development assistance.

It's not inconceivable at the G-20 at some point you'll see agenda items begin to migrate from the G-8 to the G-20. And, in fact, the South Koreans, who will host the G-20 summit – the next G-20 summit in November, have suggested that maybe the G-20 should start talking about development.

This will be a fluid period, a transitional period. The G-20 has to want these agenda items and they're going to have to create mechanisms to address it, but for now the G-8 will continue to play an important role in some of these broader agenda topics. But I wouldn't be surprised; over time you may see the G-20 accepting more of these larger complex global challenges in the G-20 framework. Thank you.

MR. SCHWARTZ: Heather, thank you for that. That was a terrific overview.

We're now going to go to our colleague Fariborz Ghadar, who is a distinguished scholar and senior advisor here at CSIS. You have F.G.'s – as we call him affectionately – bio in front of you but he really is one of the leading authorities on future business, transglobal economics and international finance and banking. And I'm going to let him tell you about how this plays into the G-8 or G-20.

FARIBORZ GHADAR: Thank you very much, Andrew, and thank you, Heather, for such a wonderful start. I'll try to expand a little bit on what Heather was talking about.

And last time, when they met, both the G-8 and the G-20, there was quite a bit of consensus. The economy of the world was in trouble and they all had to do something. They were going to stimulate it, so there was much more consensus than there is this time.

This time we really have three meetings, not two. I think we have the G-8, the G-20 and the street. And the street is going to be very important this time because the G-8 and the G-20 will disagree with what the street wants and you may in fact see the street be quite a significant player in the coming week.

Let me look at first on what are the key issues that are economic and global? And if you look at the key issues, the first one is financial regulatory reform, particularly regarding the development of more conservative capital requirements that Heather mentioned and more stringent regulations on liquidity. This is going to be a big deal and it's not going to be – there is no consensus on that and you're going to see discussions on how to handle it. And Heather mentioned about the tax levy. I'll mention that a little bit later on as well.

The second one is, how do we come up with sustained and balanced economic growth to deal with the persistent deficit of some countries and the persistent surpluses of the others? Read into that the U.S. and China.

And, finally, sort of all-encompassing, is, you know, what are we going to do about the level of deficits that these countries are generating? And that came into effect right front and center with the Greek and the euro crisis, and that's emblematic of what a sustained deficit can produce.

So we've got three major issues, of which there is really no consensus among many other groups in the G-8 and the G-20. So now we can sort of pare it down and go down into G-8. The G-8, I call them the check-writers of the world, okay? They are the most affluent and they're writing the checks. They're writing the checks for development so they're worried about things

such as AIDS, malaria, child care, et cetera. And I think Lisa was going to talk a little bit more about that.

But they also are worried about the concerns of the developed world, which will be nonproliferation, terrorism and security. So, on those they can all sort of agree with each other. There's a question of whether they met their commitments in the past or are they just committing and not delivering, et cetera, but that's sort of the area in which the G-8 feels very comfortable.

As soon as you go into the three economic issues, however, that we talked about, they can't really deal with it without the G-20. Each one of them looks at the G-20 issues and wants to handle it in a different way. So, if you look at, for example, the issue of the deficit of the Greeks and the euros and the implication of the deficit, as Heather mentioned, the Europeans want to have a bank tax levy, okay – transaction levies, constraint on the capital movement.

That doesn't sit very well with countries that don't have a bank problem, so read into that Brazil, China, India, even, I would say, Japan, Canada and maybe even Russia. So there is going to be some disagreement on that, and the U.S. has basically said, look, I gave the money and the TARP money is coming back.

So I think that's not going to go anywhere, so I agree with Heather's assessment. I think the whole issue of the tax levy is an interesting thing that the Europeans want to do, but it's not going to have any kind of track with the G-20. And, in fact, we saw some indication of that in June 4 and 5 in Korea where in Busan they basically didn't have an issue, didn't have any take.

However, the Europeans will say, look, we've done some stuff. We've done the stress tests. Yes, they did the stress tests but they didn't divulge it. It took them a while before they divulged it. And now that they've divulged it, it's not clear whether the stress test was really stressful. There was some issue when the U.S. did a stress test that the stress test was not that stressful. Well, in Europe it's much less stressful.

And the question is, how transparent is it? Does it make sense? So, yes, they have done this stress test and they want to come up with a resolution. Remember, the banks have bought – many of the European banks have bought the papers of Spain, Italy and more Greece. Those papers may be worthless. If it's worthless and it all comes out, then who's going to bail it out? If the governments don't want to bail it out, then they're going to tax them. This is just not going to sit very well.

So this is a major issue with Europe even though they have come to the table and said, look, we've done the stress test. The U.S. comes to the table and basically says, look, I've got an economy that's improving; I did the stress test; it was a pretty good stress test; my legislative branch is trying to come up with financial regulations and the TARP money is coming back.

So Obama goes there actually looking pretty good except that we've got the largest deficit of any country around the world, maybe not as a percentage but certainly an absolute amount. It's a huge deficit. And we are the ones who buy everything and the Chinese are the ones that sell everything.

The Chinese, the Brazilians and the Indians come to the table in much better shape but the main issue is going to be the China foreign exchange rate. The Chinese sort of made some kind of gesture that they're going to consider changing the valuation; they're going to try to change it. The markets got very excited about it. The stock market went up. European stock markets went up. And then we sort of sat back and said, well, this is what they've been telling us all along so what's new?

Now, to be fair to the Chinese, the currency has actually appreciated. So if you look at it – I remember four or five years ago it was 7.5. I was there recently; it's 6.75. So that's really a significant appreciation. However, the feeling is that's not good enough and we really need some more. And, yes, it's nice that you're telling us that but, you know, when are you going to do it? But by their gesture, the emphasis on the G-20 that was going to be on the currency of the Chinese has basically somewhat dissipated, although I think it's going to come back again.

The G-20 is also going to talk about development. Some of these countries are now beginning to be rich. Some of them are going to start writing checks. To the extent that they're going to write checks they want to have a say.

One of the issues that sort of hasn't been talked about but periodically comes about is what about – if I'm writing all the checks, why don't I have a say on the global financial and economic situation? What is their position going to be at the IMF? If they're going to be the big buyers of U.S. Treasury; if they're going to be giving a lot of money to the International Monetary Fund, why can't they have more of a say on how things are done at the IMF and the World Bank, which is right down the road?

Finally, I would like to talk about the street. Heather talked about the billion Canadian dollars that's being spent on security. Some of it is going to the lake, some of it on construction they may not even finish. They're trying to put a very good face, some people say because of internal, you know, politics in Canada, but a billion dollars is still a billion dollars, okay? That's a lot of money.

So why are they doing that? I suspect that the street is looking at this and saying, you guys have failed, okay? The G-20 is supposed to be the board of directors of the global economy. The G-20, according to the street, has failed. Now, the G-20 looks at it and says, look, if I'm going to be benevolent about the social issues, et cetera, I'm going to dilute my impact. So I should really be the board of directors of the global economy. The street, however, says, look, you're missing on some key issues.

Key issues are if you restrict the budget – if you want to restrict the budget deficits, you're going to have to cut off a lot of benefits. What's going to happen to the labor movement? I think we're going to see some labor demonstrations in Canada. The U.S. Steelworkers are going to be there; other people are going to be there. The street is going to say, you've talked about environmental issues but what are you doing about it, okay? Yes, you're going to talk about the oil spill in the Gulf but what about global warming?

A billion dollars – I think it's because they're quite concerned the street is going to be very local. And the proof of the pudding is I read an article that they're going to have some sound cannons coming up. Now, I didn't know the Canadians believed in sound cannons. Now, if you're not familiar with sound cannons, these are machines that make very, very loud noise, and up to 300 yards it practically, you know, hurts your ears.

So that's part of the crowd control. Why do they need sound cannons? I believe that there is concern that the street is going to be quite vocal, and I believe that the street is going to say, look, you're relying on the three issues, the three issues that we talked about – the deficit, the financial regulatory reform and the sustained economic growth, U.S. deficit, China surplus – but you've forgotten about the concerns of society.

And that's going to be a big issue, and the G-20 rightly will say, look, my role is the board of directors of the economy of the world. The street's going to say, well, what about social issues that are related to the world? And that's going to be one of the sort of secondary issues that we're going to see in Toronto. Thank you very much.

MR. SCHWARTZ: Thank you, Charles – I mean thank you, Fariborz. Charles Freeman, my colleague who is our China Studies chair and former assistant U.S. TR for China in the Bush administration. Charles?

CHARLES FREEMAN: Thanks, Andrew, and thanks, Heather and Fariborz. You covered a lot of ground. I guess my role here is to add the China dimension, which seems to be present in everything that we do nowadays, so I will do that.

I won't try to get – I won't, as Heather suggested, talk too much about Japan's role in G-8 other than to say the interesting thing there is to watch the body language between President Obama and Prime Minister Naoto Kan as this is – there is some speculation both here and in Japan that the U.S. administration was too heavy-handed in bringing down the former Prime Minister Hatoyama. And there is some concern that the U.S. and President Obama will be unpopular in Japan, so there is a question of how the two leaders relate.

But China – China's role in G-20, which is, I think, the interesting thing that F.G. talked about and which I think a lot of people are focused on. China's role in these meetings, in the G-20 meeting in particular is still evolving. I don't think there is any consensus in China, let alone anywhere else, that the G-20 is the new not only board of directors of the world economy but is also the new effective board of directors for other issues, whether they be social issues that F.G. talked about or climate change or anything else.

In fact, China has been pretty vociferous that those issues be kept off the agenda because China has some defensive concerns there and doesn't want another opportunity to be knocked about the head and shoulders on those issues.

China approaches these meetings very much with its own interests in mind. It's not yet at the point where it is prepared to cloak itself in the mantle of global leadership and take charge at

the G-20 or elsewhere, or at the U.N. or elsewhere. It's very much focused on its own issues so therefore it's very defensive.

One of the things that Chinese leaders really despise is being isolated in the company of their peers on the world stage, and some of the moves that F.G. talked about with respect to the renminbi's exchange rate were very much, I think, politically motivated to remove the potential focus on the renminbi as a primary issue at G-20. The idea was to effectively take back – pay something forward on the renminbi and so forth, take the focus off them, take the pressure off them and then very much throw it back at the Europeans on the debt crisis.

And I think in large part that has succeeded. Yes, I think, as F.G. says, there has been some reading of the tea leaves and sort of parsing through the comments over the weekend from the People's Bank of China and questioning, well, that's what you've said all along; what's new here?

There was a bit of a bump on Monday in terms of appreciation, a little bit of a claw back, as I think very clearly the Chinese government is trying to prevent a whole lot of hot money speculation from flooding the marketplace. But I do think that if you read all of the comments that have been going on in China, that there is some sincere desire and intent to move the renminbi.

Pretty clearly, there's a lot of discussion internally in the media in China that this is the right time to begin to move the renminbi, a lot of focus on what happened over the period of time when the renminbi was appreciating before mid-2007, and the suggestion that exports weren't hurt. You know, our current account surplus continued to go up, so therefore the notion that Chinese competitiveness is being hurt by renminbi appreciation is wrong. There are a lot of benefits to doing it.

So I think there is some sincere intention to move it and I think you will see a modest blip in movement over the course of the next six months to a year on the order of 5 percent perhaps. But is that – the question for the G-20 is whether to completely remove the pressure on China to move the renminbi by virtue of what they said over the last weekend.

And I think – if you've seen some comments by Prime Minister Harper and others coming out of the U.S., whether it's our legislative branch or otherwise, there's still a lot of intention to say, well, you know, we're going to keep watching you, we're going to keep focusing on this issue; we really think the renminbi has to move.

So it hasn't been completely taken off the table for G-20, although I think in large part the Chinese have been effective in saying, hey, we already said we're going to move. Look, we're moving. Here is what we're doing. We've got some concrete stuff going on. So I think that they can defend their interests there.

More broadly, I think what is China looking to achieve at G-20? I think they're not interested at all in things like a bank levy, not particularly interested at all in some of the other nitty-gritty financial regulatory reforms that are on the table. There is no consensus. I think by

and large they approach this looking at trying to figure out a way to protect their assets in the dollar and at the same time trying to defang any efforts that might be out there to rebalance the economy in ways that limit their flexibility.

So they go into this looking at this as a political exercise, an exercise in international politics, and given the lack of cohesion and consensus in G-20, I think this will be very easy for them to remove – reduce any challenges to their interests that might come up. So I will stop there.

MR. SCHWARTZ: I'll call on Lisa Carty, who is the deputy director of our Global Health Project. And many of you know about Lisa's work on our Smart Global Health Initiative. You can find all of that at smartglobalhealth.org. I'd like to introduce Lisa Carty.

LISA CARTY: Okay, thanks very much, Andrew, and thanks to all of you for being here this morning. One thing I've learned is that when you go last it's best to be really brief, so I am just going to make three very short points of things I think it might be useful for you all to be attentive to over the coming week and then make sure there's plenty of time for questions for the full panel.

So, I think the first point I would make is that, you know, I think we're very fond of saying this is really a critical moment for – and then sort of name your issue. But I think in the case of the G-8, the G-20, in development this is actually really true this time around.

We're five years out from the very important commitments made at Gleneagles. Those commitments were to increase, by \$50 billion by now, by 2010, the general pot for development and health. And it's been a bit of a mixed bag in terms of performance. We're 60 percent of the way there – largely due to U.S. and U.K. leadership – but we're 40 percent away from that goal. And Heather mentioned Italy, which has certainly, I think, been a disappointment for many in the advocacy community. So there's a lot that remains to be done to still meet the commitments made at Gleneagles.

And we're five years out from the Millennium Development Goals summit, which is supposed to be in 2015. Now, that's important in the social and development community because there's a list of eight targets that were set for achieving greater equity and reducing poverty in the developing world, and about four of them are related to health.

Again, it's a very mixed story. There has been phenomenal progress made in getting life-saving AIDS treatments to people on the ground. We went from 400,000 people getting access to treatment about eight years ago to 4 million people having access today. I mean, there's still a deficit of 10 million people that need treatment, but by any measure that's very good progress.

There has not been as good progress in maternal and child health, and I will come back to that in a minute, and that's an area where the Canadians are very much stepping up to the plate. But I think by any measure, the G-8 has really played a very important role in bringing added focus and attention, particularly to the health issues.

I mean, simply the fact that at this type of a briefing I'm sitting here talking about global health and you're taking notes is, in my view, quite amazing because I've been in this field for almost 25 years and I could not have imagined that happening even 15 years ago.

So, both in terms of providing political leadership, in terms of providing resources – I mean, tremendous amounts of money have been mobilized to create things like the Global Fund to Fight AIDS, TB and Malaria, which has saved almost 5 million lives over the last eight years; to launch the Global Food Security Initiative in Italy last summer, although there is still some question around how those resources are coming forward; and to really push forward with the program to eradicate polio around the world. These have all been important G-8 initiatives that have been sustained by the G-8.

So, as I look forward to this transition between the G-8 and the G-20, I think it's going to be very complicated, for all the reasons that my colleagues have outlined, and I do really think, at least over the next five years between now and 2015 and the achievement of the Millennium Development Goals, it's really going to be important for the G-8 to continue to step up to the plate in the way it has in the past.

The second area where there is really an important opportunity over the next five years and at this G-8 summit is in the area of maternal and child health. The statistics here are incredibly bleak. More than 8 million children die every year from largely preventable causes. That's a thousand kids every hour dying, which I actually had to do the math last night to make sure that was right because when I looked at that figure I thought, that simply can't be true, a thousand kids an hour, but it is.

The story for mothers is not much better – between 350,000 and 500,000 mothers dying every year. Again, one way to think about that is if you're a mother giving birth in the developing world, your risk of dying is one in seven. If you're a mother giving birth in a Northern European country, your risk of dying is one in 30,000.

So, again, an incredibly stark difference here that the global community now has focused on in a different kind of way, which is certainly a very good and powerful thing. The U.S. Global Health Initiative is very much focused on maternal/child health issues. The Gates Foundation has just announced a new \$1.5 billion program in this area.

And most importantly for the G-8 is, as Heather has mentioned, the Canadians are putting on the table a billion-dollar initiative on this set of issues, the details of which are very unclear still at this point, but they're challenging others to come forward as well. I think the U.K. has said it's going to put about a billion dollars on the table. I think France has said it's going to step up in some way.

Not a lot of clarity from some of the other G-8 participants, which has actually led the Canadians to do something interesting. They've gone out and invited some of the traditional donor leaders on maternal and child health, specifically New Zealand and Norway, to come to the summit later this week and help get this issue more on the table.

So I think it's going to be very important to look at how concretely this moves forward and how successfully the Canadians can really leverage engagement and money from others. Again, you know, this is an issue where political leadership is imperative, where money is needed, but what is really needed is an organizational drive and focus and a sustained view – because these are problems that require five- to 10- to 15-year solutions – to actually drive forward progress in this area.

And it's not a question of not knowing what to do – the health community knows what to do and it's relatively affordable – but it's a question of getting organized and having the focus to really see it through. So, my second point of something to watch is really do keep an eye on this set of maternal/child health and broader health issues and particularly look for sort of the follow through on the commitments.

The third point I would make is around the accountability report. The G-8, for quite some time now, has been saying it needs to keep better track of its own commitments and how it's followed through on those commitments. And many people in the civil society, the NGO world, the street have been making that same point.

So this year, for the first time, there actually has been an accountability report develop that I think looks back on the last five years of G-8 commitments. It was released on Sunday evening. Different people are going to see it different ways. I mean, there's going to be folks who are going to say, can governments really truthfully evaluate their own performance? And I think that's a fair enough point.

I've looked at parts of that report, and actually on some issues there's surprising convergence between how the governments rate themselves and how the street would rate those governments, and in other issues there's a difference. But I think the thing that struck me when I read at least the health part of the report is it doesn't look forward.

And I think the important question now is how do you take something like an accountability report – and it doesn't just look at health. It looks at G-8 commitments across the board – peace and security and food and development – but I think the question is, what's the plan forward? You know, you've taken this important first step of rating yourself and looking at your achievements but now what are you going to do to address the gaps?

So those are the three things I suggest that people look forward to in the next week.
Thanks.

MR. SCHWARTZ: Great.

Q: Yeah, George Condon with Congress Daily. Two questions. Last year we sat here and said the leaders had a lot of questions about President Obama's leadership. Have they reached conclusions about his leadership? And, secondly, can you talk about what role trade will play on the agenda? Will there be any pressure on President Obama to do more than just talk about free trade?

MR. SCHWARTZ: Charles, perhaps you can follow up.

MS. CONLEY: Well, it certainly has been – you know, looking now almost 18 months into the Obama administration, the European leaders have sort of settled in and settled down, I would suggest. Last summer they were all trying to get their Oval Office meetings. They were trying to get lots of photo ops, whether that was at the London summit in April or throughout the G-8. So I think they now have a working pattern with the president.

Clearly, I think there is still some room to develop that personal relationship but I think the leaders have established a very workmanlike approach. I think you're seeing a lot of transatlantic phone calls, some of those a few weeks back. It was President Obama urging Chancellor Merkel to sign on to the trillion-dollar aid package. And other times, you know, it's obviously conferring about an issue.

So they've established their rhythm, but I point to a line in the recently released National Security Strategy that I would like to see the administration flesh out a little bit more and that's how they cultivate relationships with allies. In this period of great test, whether it's Afghanistan, managing the global economic crisis, how do you cultivate your traditional allies? And in part that's about the G-8. How are you cultivating this group of like-minded countries to further an agenda?

And I think that's where perhaps the administration could flesh out more, but I think it has developed its rhythm. The leaders are comfortable. Obviously Prime Minister Cameron is sort of the last of the European leaders to establish that under great stress and duress, obviously because of BP.

So, that will be the most fragile relationship to develop in the coming weeks but I think for Sarkozy, Merkel, Berlusconi, the other major European leaders, they feel more confident in their relationship with President Obama.

(Cross talk.)

MR. FREEMAN: Yeah, it's a great question, and if you look at the agenda that's been shared around, trade is really notable in its absence. I think partially that's because members of the G-20 – the Europeans, the Asians and the Latins – can look at the calendar and realize that November 2010 is just around the corner and the likelihood that the president is going to move any kind of trade liberalization agenda forward is slim and none, so pushing that agenda too hard is probably going to yield no results at all.

I have no doubt that there will be, again, a recommitment to the concept of free trade and perhaps even another tired saw, sort of trying to breathe life into the Doha round. That stuff is going to ring pretty hollow, to be honest with you, and I think it's going to be – if I'm, you know, Korea at the table and I hear the president talking about trade, I kind of scratch my head and say, okay, how about it?

So I think trade is going to be a sore point and, you know, I have no doubt that there will be some snarky remarks at the table but they probably won't end up in any concrete document.

Just a note on kind of the president's leadership. With respect to China, there was a period, remember, over the last 18 months where we had a real dip in U.S.-China relations, and then I think the Chinese and we sort of realized, well, we can't really afford to let this relationship go sour.

So, I think although the Chinese really viewed the president as relatively weak during his first year, and there have been comments among Chinese leadership, apparently sort of calling him professorial in his approach, I think there is a recognition again that, you know, this guy is, after all, the leader of the most powerful country on earth and being overly critical or sensing more weakness than probably is there is probably not to our benefit.

MR. GHADAR: If I may add a couple of things. One is trade, while not specifically mentioned, is one of the key issues when they talk about sustain and balance economic growth to deal with the deficit of some countries and the surplus of – that's basically trade. They're not putting it in terms of trade to make it sensitive but they did signal the G-20 that there was substantial consensus on the importance of maintaining open markets.

So that is also very positive. It basically says, you know, we're not going to have – we're not going to increase non-tariff barriers, we're not going to change barriers, so at least the statements are okay. The implementation of it, as Charles said, is going to probably get delayed a little bit.

And with regard to Obama, I actually think that he is going to go to the thing being relatively successful. The economy is turning around. TARP money is being paid. Financial regulatory is being put in place. I mean, we'll talk about the Gulf but other than that, compared to last year, Obama is going to be perceived as having done a pretty good job.

Q: (Inaudible, off mike.)

MS. CONLEY: Yeah, exactly. And the signal that I got in reading the press readout of President Obama's call with Merkel sort of suggests that, well, we're going to differentiate those exit strategies. And I think they'll come up with artful terms to suggest that we're continuing to work on these issues. We haven't reached agreement.

I think back in September in the Pittsburg G-20 summit, I mean, there was a feeling that, okay, a corner is being turned, that this summit in Toronto would be a point where the leaders could say, we've managed through the worst part of the storm – still lots of cleanup to do but we've made it.

And I think, with the European debt crisis, with the concern echoed by some that this could cause sort of a double-dip recession, unclear where European growth rates are going, that this is not the summit to quite say, okay, we've weathered the storm. It's to say, we're coming out of this in different places; we need to keep up the progress. And I think you're going to see

the agenda developing really for the summit in South Korea in November to see if we really have weathered this European debt crisis.

And I think the link here – and obviously what I've read about the Chinese government's concern about the European debt crisis and their ability, you know, to dampen purchase of exports, this does have these global ramifications. If Spain continues to have challenges in July they'll have a big turnover of debt. If that continues to be a problem, that affects U.S. markets. So you're still seeing where these ripples in the pond, if you will, are still affecting them. We're not through it yet. So it's going to be a very important challenge.

I watch sort of – and I know this is not the politically correct term but I don't know what else to call it – these pre-G-20 caucuses, if you will, to try to manage this agenda, whether it's the BRIC countries conferring, whether it's the G-8 countries conferring, where it's others, they're trying to manage an unruly G-20 to make sure they can manage these issues. And in some cases, the management is trying to prevent something from happening, like the bank levy and things like that. So you really have a dynamism here that it's been challenging from an analytic perspective to watch.

H.G., go for it.

MR. GHADAR: Sure. The question is, who is going to be disadvantaged? And if the European banks are in trouble and we're paying for their trouble, why should our bank be disadvantaged because of their mistake? Without the bank levy, the European banks have to handle what's going on but we already are in the clear. So our banks will be, you know, relatively in better shape. It's the same feeling as the Canadian banks. It's the same thing as the Japanese.

MS. CONLEY: And this is some of the concern that some of the European ideas, they're almost in a point sort of going unilateral a bit. Some recent German actions – if you don't manage this carefully and coordinate it, you're going to cause new problems. And the global financial transactions, whether you're going to manage, you know, derivatives and hedge funds, well, how does that disadvantage American investment and capital? So this has to be coordinated but you don't have a coordinated position yet so it's a very challenging moment.

MR. GHADAR: And there's unintended consequences –

MS. CONLEY: Right.

MR. GHADAR: – that may occur, which is exactly what Heather is saying.

Q: Thank you. (Unintelligible.) I have a question for Charles. You know, the Chinese moves on the U.N. issue, do you think that's enough to satisfy Congress and the White House? And, going into this G-20 meeting, you know, what sort of stands do you think Obama is going to bring to bear on the U.N. issue in the meetings?

MR. FREEMAN: I think the president will continue to say, you know, this is a very important issue and we are watching very closely. Will it stave off congressional legislation? Well, Chuck Schumer is still calling for a vote soon.

I think in general it probably takes all the wind out of the sails of legislation over the next little bit because you will see some movement. And as legislators watch that happen, they're going to say, why are we doing this again? Certainly – I mean, it probably takes any chance that legislation will pass through the House completely off the table.

Q: (Inaudible, off mike.)

MR. FREEMAN: If I'm Treasury, I wait until the congressional recess and issue the report – (laughter) – and talk a lot about sort of the technical aspects of what defines manipulation and say, according to the technical aspects, China is not a manipulator, because there is another street that is paying very close attention to that, and that's Wall Street, and I think a signal that Treasury is going down the direction of entering into something like a currency war would not be good news for those of us that want to avoid a double dip.

Q: For anyone who can answer it, some in the administration have suggested that the European countries think that the fact that the financial regulation bill has gotten so far in Congress, it's tantamount to having passed. Is this the case? I mean, this bill is obviously not going to come out before the G-8 and the G-20, so what is the attitude in Toronto towards what our Congress is doing and whether in fact Obama has this locked up at this point?

MS. CONLEY: Well, I think the Europeans have been educated over the last year and half particularly about how the Obama administration manages their legislative agenda, and I think they were given a very important lesson on how long health care took.

And, again, as I was telling you, last year, you know, this is when the Obama administration was, you know, meeting all the new leaders and they were coming to Washington to visit with the president and they were hearing where the process was on health care reform but, you know, the Germans wanted to talk about climate change; they wanted to know about where is this legislative process?

So I think the Europeans have been educated, if you will, in the challenges of moving complex, difficult legislation through the process.

Last fall in Pittsburg, the Europeans were expressing concern that a year after the September 2008 collapse there was still no package that was passed that – again, wanting to capture the urgency. You know, now as we're sort of heading towards the second anniversary of Lehman Brothers, you know, again, we need the urgency, we need the focus. We don't want this global economic crisis to happen again.

But on the other side, the Europeans themselves had had a very difficult time developing E.U.-wide regulation. I mean, there's not – there's endless ideas on, you know, creating a ratings

agency, more supervising – and they’re creating these things but they haven’t reached consensus themselves.

So I would suggest that while they may point to the U.S. Congress and say, you know, why haven’t you, you know, almost two years after when the world stood still, you haven’t done anything, Europe has – you know, it hasn’t quite come out with all of its regulatory requirements either.

MR. FREEMAN: And just to add to that, that’s why they’re unilaterally making decisions. I think they basically thought that things are not going to happen very quickly; we need to do something. We may not like what the something is – in fact, we don’t like what the somethings are – but they’ve unilaterally decided to take some steps.

Q: (Inaudible, off mike.)

MS. CONLEY: Well, the paradox is that there’s more European representation around the G-20 table, yet can they find their voice? Can they influence the agenda? And I would suggest they’re going to have a difficult time getting the European economic agenda past the G-8, not even to the G-20 yet. So, first steps first.

You know, this is sort of a longer, broader, more theological, I think, point in where we are in transitioning from, you know, the post-World War II structures that were, you know, dominated by European and American perspectives. And, as I said, the G-5, in 1975, is the perfect example where, you know, five countries were gathered in Rambouillet to have a talk about how this is all going to work.

Well, the conversation in 2010 has to include 20 countries, some having a dynamism to their policies and their perspective and others are trying to renew and reinvigorate their growth strategies. So we’re just in a different paradigm. The problem is we are still holding on to the old because that’s what we know and that’s the vehicle we choose. We haven’t quite created the new structures to feel comfortable in completely moving over.

So we are going to be in this period of time, I would argue for the next five to 10 years, of this very messy, ambiguous transition period where you’re going to have some freelancing, some ad hoc coalitions that are created around interest-based agendas. And what makes Europe really uncomfortable about this is that we’re moving from a value-based paradigm of those like-minded countries and we’re shifting much more to an interest-based agenda where the rules of the road aren’t going to be as clear as we’d like.

And that’s what has Europe feeling very uncomfortable. And when you’re in a situation where you feel you have no control – and I think this is, again, some of the European reaction to the view of the market speculation and this is out of control – you either grab onto it and, by god, you’re going to control it and you’re going to be unilateral and you’re going to put your stamp on it, or you’re going to let your hands go and say, I’m going for a ride on this roller coaster and I’ll do my best to stay, you know, in the car and not fall out when we do the loop-de-loop.

And that's where, I think, they feel. It's uncomfortable for everyone. We're in this transitional period where what's been working for us for 60-odd years isn't working anymore.

MR. GHADAR: May I add –

MR. SCHWARTZ: Oh, I'm sorry.

MR. GHADAR: – a couple of things? It's interesting that you mentioned it in that way because I think many of the Americans feel that their role has diminished as well. So it's not just the European; it's an American – it's basically the old guard is rising.

The difference between – from out outsider looking in, the difference between Europe and the U.S. is the U.S. likes to see the G-20 be board of directors of the global economy – I've said that before – while the Europeans – maybe not the administration but the Europeans – want to see “the committee to save the world.” Now, “the committee to save the world” needs a lot of money, and unfortunately where is that money going to come from? So that's kind of the dilemma.

So I see both the North America and Europe role diminishing but their role, based on the desire of the people, is quite different also.

Q: (Inaudible, off mike.)

MS. CONLEY: Yeah, the last two weeks I have probably had more public outreach on the so-called U.S.-U.K. special relationship – it's not so special; what does this all mean – and it's been a very difficult conversation to have as such close allies – as I said, you never want to start a new relationship, and creating hopefully a good personal relationship between David Cameron and Barack Obama, the last thing you want to do, is in the highest-stress environment where both – you know, public opinion on both sides are demanding a specific response by their leaders and it's a very populist response. It's not necessarily seeking solutions to the actual problem.

So I think the photo op here will be the handshake between Prime Minister Cameron and President Obama, and how both leaders – what their public statements will be on the oil spill.

As I said, this is mutual interdependence in the 21st century. Forty percent of BP shareholders are Americans. Six Americans sit on their board of directors. And British pension funds and tax revenues are very dependent on BP being successful. So we are very mutually dependent economically on this subject, and clearly BP must find a solution to the oil spill.

But we can't lose sight of the broader relationship. And I'll get back to Afghanistan and this story that unfolds regarding Gen. McChrystal. You know, Gen. McChrystal also reports to NATO. He reports to the secretary general. He is dual-hatted. He's in charge of the coalition.

Now, granted, that coalition is predominantly of U.S. forces but this issue is becoming – will become, I think, a major challenge to David Cameron to manage. That’s why he went very quickly to Afghanistan to confer with his commanders.

The command changes in Helmand from a British command to U.S. command. That’s been a bit of conversation. They’re suffering casualties and obviously will continue as the offensive begins in Kandahar. This is an ally we need to remain strong and so we have to keep BP in perspective, as much as it’s very difficult when you see these horrific pictures coming out.

Finally, on the oil spill, President Medvedev has made a suggestion that we need a global oil fund to prevent – you know, to sort of create ways for ecological clean up. I don’t know whether he will introduce that bilaterally with President Obama at the White House or do that in the G-8 setting, but you will see, obviously, the spillover effect of this, whether that’s arctic oil and gas exploration for the Russians and future drilling. I mean this has got everyone focused on what the implications of this are of both the spill as well as the environmental consequences.

Q: (Inaudible, off mike.)

MS. CARTY: Yes, sorry if, in my effort to be brief and concise, I overlooked some of the finer points here. But, you know, I think to your first point of the role of the WHO – and I think to the colleagues’ point here as well – you know, I think this area of cooperation around global health is a bit of a bright spot in terms of sort of multilateral collaboration.

And I think it is an area where the U.S. has tried to engage strongly with European partners, I think in part because the U.S. realizes it alone cannot be the solution. And I think there’s also just a necessity to do that if these issues are actually going to be addressed over a 10- or 20-year horizon, which is the timeframe actually that’s required.

In terms of your question on structure and WHO –

Q: (Inaudible, off mike.)

MS. CARTY: I don’t think it’s competing but I think it is a fair question of how effectively the governance structure for some of these big health initiatives has emerged and evolved over time because many of them are focused on single diseases, which has yielded great results. For example, I mentioned some of them in the area of HIV/AIDS. But what they’ve done is also sort of silo the health systems so that while, you know, people might be surviving HIV better, they’re still dying of TB.

So I think there’s a recognition that this is kind of a next tier of challenge that people need to go to now and that it is absolutely essential that the WHO be a part of those discussions and that there be a forum – and maybe it’s in the G-8 or maybe it’s in addition to the G-8 – where the check-writers and the check-receivers and organizations like WHO and this Global Fund to Fight AIDS, TB and Malaria actually have a forum to have a joint plan and a joint platform for how to attack the problem.

The secretary general actually is convening, in New York in I think October, a summit on maternal and child health to get at some of these coordination issues. But they're very difficult, in some ways for all the same reasons coordination within the G-20 might be difficult. There's just lots of different interests that need to be met.

And to your point about Haiti, I actually don't know the answer to that question. I'm sorry. We can try to check on it for you.

Q: (Inaudible, off mike.)

MR. SCHWARTZ: I think we'll have to get back to you on that one.

Q: (Inaudible, off mike.)

MR. SCHWARTZ: I'm sorry?

Q: (Inaudible, off mike.)

MS. CONLEY: Really, that's sort of the next step the G-20 countries have to decide if they want a more formal, transparent mechanism. And this is part of the migration of the agendas, if that's what the G-20 countries want to do, and start dealing with this in a more, you know, transparent, regular process. I mean, we're still sort of deciding the chairmanship and when the summits are being held and things like that.

But that's a decision the G-20 has to make. And that will be an important decision because it's part of this, you know, transition period. But they have not made those decisions, to my understanding, but if they're going to take on other issues on the agenda, they're going to need some structure and process to that.

MR. FREEMAN: And I'll just say, remember the G-20 was kind of the thing that was at hand in a moment of crisis. So it's not necessarily the natural board of directors of the global economy let alone global social welfare. It just happened to be – you know, it was the tourniquet that was there when the bleeding was going.

So, you know, I guess the question is, is it going to survive as the de facto and de jure next thing? Probably, because I don't know that there is a whole lot of interest in sort of creating something completely new. But you sort of look at the G-20 membership and there are a couple of head-scratchers there. You know, you can – I love my friends in Buenos Aires but why are they on the board of directors of the global economy? It doesn't necessary make that much sense.

So I think, given that there is some question about the fundamental nature of the G-20 as that de fact club, you know, I think there's going to be a lot of questions and a longer transition period before people say, well, I guess it's time we finally formalized this thing and put together a secretariat, and here is the formal agenda that we all agree on. I think it's just too early to tell.

MR. SCHWARTZ: Thank you.

Thank you all for coming today. There's a couple of ways you can access the transcript of this. One, I will send it to you. Two, it will be up at CSIS.org. There will also be multimedia surrounding this briefing. There will be a video and audio and perhaps a highlights reel that will be at CSIS.org and also on our iTunes platform, which is on the Beyond Campus section of Apple's iTunes. Thanks very much for coming.

(END)