THE ATLANTIC COUNCIL

OF THE UNITED STATES

Transatlantic Leadership for a New Global Economy

Stuart E. Eizenstat • Co-Chair
Grant D. Aldonas • Co-Chair

Frances G. Burwell • Project Director and Rapporteur

Policy Paper

April 2007

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- conducting educational and exchange programs for successor generations of U.S. leaders so that they will come to value U.S. international engagement and have the knowledge and understanding necessary to develop effective policies.

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THE ATLANTIC COUNCIL
OF THE UNITED STATES

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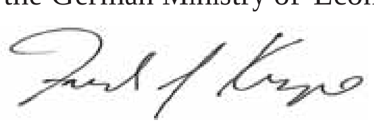
Foreword

For many years, the United States and its European partners were the unchallenged global economic leaders. They not only created the major international economic institutions but also represented the bulk of the wealth behind them. But traditional transatlantic economic leadership faces challenges on several fronts. Emerging economies last year for the first time ever surpassed the developed world in the total size of their national products – and they make up the lion's share of total global growth. At the same time, globalization has eroded western governments' control over their own economies, making them increasingly vulnerable to economic forces outside their borders. The power of "non-state actors" has grown – capital markets, multinationals, hedge funds, and private equity.

Yet though the relative size of western economies has declined along with their governments' apparent influence over events, the need for transatlantic economic leadership has seldom been greater. There is a dramatic need for the U.S.-European team to reassert itself in global economic leadership as the world tries to come to terms with the rapid changes that have brought remarkable growth and prosperity, but at the same time are challenging the rules and institutions the West established.

Out of concern for this lack of leadership, the Atlantic Council convened a commission of distinguished transatlantic leaders, many of whom have dedicated their professional lives to improving U.S.-European economic relations. The group was led by Stuart E. Eizenstat, former deputy secretary of the Treasury and Atlantic Council board member, and Grant D. Aldonas, former under secretary of Commerce for international trade. They took their distinguished colleagues through a rigorous examination of the global economy, including the future of multilateral trade rounds; the growth of international investment and transnational capital flows; the threat of economic nationalism; the challenges facing the international energy market; and the roles and futures of the key governing institutions of the global economy. The result is a report of enormous scope that offers an unprecedented look at what the United States and the European Union must do to guide the global economy forward: they must bring new partners into the leadership circle; reshape the major economic institutions; and find new ways to reduce barriers to trade and investment.

In working on this report, the Commission and its co-chairs consulted extensively with many experts (see page 35), including those who attended a seminar held to review the preliminary conclusions of the report. We are grateful to all of them for their insights, but none of them bear any responsibility for the final conclusions and recommendations. Fran Burwell, director of the Transatlantic Relations Program at the Council, conceived of this visionary project and served as rapporteur, translating the wide-ranging discussions of the group into the attached narrative. Thanks are particularly due to the members of the commission, without whom there would be no report. Finally, the Council gratefully acknowledges the support of the funders of this project: the German Marshall Fund of the United States; the Washington Delegation of the European Commission; and the Transatlantic Program of the German Ministry of Economics and Labor.



Frederick Kempe
President and CEO

Members of the Atlantic Council Commission on Transatlantic Leadership in the Global Economy

The following is a list of members of the Atlantic Council Commission who have endorsed this report.*

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* Individuals endorsing the report agree with the overall consensus represented by the report, but not all individuals will necessarily agree with every statement.

THE ATLANTIC COUNCIL OF THE UNITED STATES

Transatlantic Leadership in the New Global Economy
Major Conclusions and Recommendations

The global economy is in the midst of a fundamental transformation. Globalization has linked national economies closely together — for good and bad — and has also been accompanied by a tremendous growth of private capital flows around the world. Economic wealth and power have shifted to the east and south, making the emerging economies a significant element in the world's economic well-being. The global energy market faces the emergence of India and China as major consumers and the implications of greater control of supplies by state-owned companies. The difficulties of the Doha Round have signaled the likely end of the traditional trade round as a means of lowering barriers. These changes threaten to overwhelm the institutions — the World Bank, IMF, G8/G7, WTO and others — created by the United States and Europe in the postwar era to manage the global economy.

The United States and the European Union now face a serious challenge — the international economic system from which they have prospered so much now hangs in the balance. If they do nothing, the global economy may well fracture — regional arrangements will divide the world into blocs, protectionism and economic nationalism will rise, and the governing institutions will fade into irrelevance. Only with stronger and broader leadership, will the global economy continue to be open and stable in the face of the pressures of globalization and economic nationalism.

The United States and the European Union should convene the major and emerging economic powers in a Conference on Global Economic Governance aimed at restructuring the existing institutional architecture along the following lines:

- To prepare the World Bank and the International Monetary Fund for new the global economy:
    - The heads of the IMF and the World Bank should be chosen on merit;
    - Emerging economies should have greater voting power, while European representation is consolidated into two seats, eurozone and non-eurozone;
    - The roles of the World Bank and IMF should be more clearly delineated so they are better able to cooperate, and the executive directors should be "double-hatted;"
    - Planning should begin now for a merger of the Bank and the Fund by 2030.

- A restructured G8 should be the forum for strategic discussions among major governments:
    - The G8 at the heads-of-state level should focus on political issues;
    - The finance ministers, in a new "G7 Plus" format, should become the primary advisory body of the global economy, and be open to leading emerging economies, including Russia, China, India, Brazil, South Africa, South Korea, and others;
    - The U.S. and the EU should reinvigorate their bilateral consultations and summit process.

- The Organization for Economic Cooperation and Development (OECD) should:
    - Maintain its role as the economic club for democracies and market economies, while broadening its membership and strengthening its role as a testing ground for creative thinking on economic issues.

- ➢ The International Energy Agency (IEA) should be enhanced to deal with a global energy market:
  - The IEA should develop special partnerships with China, India, and other non-OECD consumers, with a clear timetable for membership;
  - The IEA should engage in a more extensive dialogue with the producer states;
  - The enhanced IEA should be given a mandate to facilitate cooperation over natural gas supplies in case of emergency.

- ➢ The WTO must be preserved and strengthened as a major institution in the management of the global economy. To that end, the United States and the EU should:
  - Push for bilateral and regional trade accords to be compatible with WTO requirements;
  - Strengthen the successful WTO dispute resolution process by making it more transparent — by opening hearings and appeals to the public and allowing non-parties to file *amicus* briefs — while working with developing countries to improve their capacity to enforce trade agreements.

The United States and the EU must also exert leadership by showing a new way forward in reducing trade barriers. As a first step toward a more open global market, the U.S. and the EU should negotiate a series of agreements aimed at creating a barrier-free "Enhanced Transatlantic Market." They should:

- Establish a barrier-free Transatlantic Investment Market, removing obstacles to foreign ownership except for narrowly defined national security restrictions;
- Launch negotiations for a Framework Regulatory accord, along the lines proposed by Chancellor Merkel, and with guidelines for the process of establishing regulations;
- Liberalize market access for developing countries by moving their trade preferences for those countries toward a single set of rules.

The United States and the European Union must lead a broader effort to remove trade barriers in the global economy by engaging major trading nations in negotiating WTO-compatible accords. Specifically, after the conclusion of the Doha Round, the United States and the European Union should engage their partners in a set of negotiations using the concept of variable geometry to:

- Work with like-minded WTO members to eliminate barriers to trade in products and services over the next ten years, extending those reductions on an MFN basis while ensuring that "free riding" is minimized;
- Negotiate accords with interested WTO members to liberalize market access in specific sectors;
- Work with like-minded WTO members to reduce additional barriers that extend across sectors in such areas as competition policy and government procurement.

The United States and the European Union must work to strengthen the global energy market by:

- Reinforcing market mechanisms, with an emphasis on transparency and governance;
- Developing a more united policy toward Russia and its energy companies;
- Identify joint action to protect energy supplies and critical infrastructure;
- Launch a new, jointly funded effort to develop future energy technologies as part of a new post-Kyoto international consensus;
- Push the global community to establish an international nuclear fuel cycle bank.

Transatlantic Leadership for a New Global Economy

Executive Summary

In the last fifty years, the international economy has undergone a significant transformation, as globalization has connected national economies and economic power has spread east and south. Unless the United States and the European Union respond with new leadership, these changes will overwhelm the institutions created in the post-World War II era by Europe and the United States to manage the world economy. China, India, Brazil, Russia, and other developing and transitional economies have become major players in the world economy. Global private financial markets can now make available to developing nations assets that dwarf the public funds available through the International Monetary Fund and the World Bank. Energy assets now reside predominantly in state-owned energy companies in some of the most unstable areas of the world, rather than in efficient multinational energy companies, as in the past. The difficulties of the Doha Round signal the end of the era of traditional multilateral trade negotiations requiring consensus of more than 150 nations. Although many barriers to commerce have fallen and global poverty has been reduced, protectionism and economic nationalism have enjoyed a recent revival in some quarters. Regional accords in trade and finance threaten to weaken commitments to new multilateral liberalization, while emerging economic powers see regional arrangements as a way to exercise influence. The international community now faces a choice: will the future bring more globalization, with further reduced barriers; or a backlash aimed at protecting regional and national economies?

The United States and Europe have traditionally been the indispensable leaders of the international economic system. Following World War II, they oversaw the founding of a set of institutions — the International Monetary Fund (IMF), World Bank, and the General Agreement on Tariffs and Trade (GATT) — intended to provide stability in the world economy. Later, they were central to the creation of the Organization for Economic Cooperation and Development (OECD), the International Energy Agency (IEA), the G5 (which became the G8), and the World Trade Organization (WTO). Designed for a different era, those institutions now risk irrelevance if they do not adapt to the changes brought by globalization, including: the increased importance of capital flows and investment; the role of the private sector in development; increasing competition for energy supplies; and the risk of large financial imbalances. Nor have the United States and the European Union proven adept at providing leadership in this modern economy. They have too often been divided, sometimes acting as rivals. Perhaps more important, they have failed to reinvigorate these key institutions or develop a new leadership group, one that would adequately engage the emerging economies and reflect the real distribution of economic power today. The consequences of this inertia are already visible — even as the global economy has become more integrated and prosperous, its governance is beginning to fracture.

It is time for the United States and the European Union to reinvigorate their leadership, with the aim of strengthening the global economy. Working with the other major and emerging economies, they should:

- ❖ *Convene the major and emerging economic powers in a Conference on Global Economic Governance aimed at restructuring the existing institutional architecture.* A new consensus must be developed so that the key institutions can be reshaped to deal with future challenges and to reflect the shifts of wealth and power in the global economy.

- ❖ *Establish a barrier-free "Enhanced Transatlantic Market" while leading a reinvigorated effort to reduce barriers to trade in the global market.* The United States and the EU should reduce bilateral regulatory and investment barriers, and, after the Doha Round, should work with like-minded countries to move past the difficulties of traditional multilateral trade negotiations by finding other ways to continue liberalizing within the WTO context.

- ❖ *Undertake a joint effort to strengthen the global energy market*, reinforcing market mechanisms by emphasizing transparency, while also seeking greater stability in supplies.

This will require not only that the United States and the European Union work together more constructively, but that the EU develop common policies in a number of areas — such as investment and energy — on which Europe is currently divided.

Rebuilding Global Economic Governance

Just as the postwar leaders convened at Bretton Woods and created the institutions that built the open and prosperous economy of the 20th century, so the United States and EU should take the lead in developing a new consensus on global economic governance. A G8/G20 meeting would be the most appropriate forum to launch this effort and ensure that all the essential economic players are engaged. To lessen concerns about western domination, the meeting could be held in Asia. The emerging economies must be convinced that they have a stake in more effective governance and that the strongest among them should take on a leadership role. Reinvigorating global economic governance will also require untangling the overlapping duties and mandates of the major institutions and identifying an appropriate division of labor that is suitable for today's global economy.

The Bretton Woods institutions — the World Bank and the International Monetary Fund — now face a serious crisis of relevance, due in part to their own success in fostering more stable macroeconomic policies and to the ability of private capital markets to offer alternative funding to governments. There will still be a need for the Bank to help countries suffering from persistent poverty and the Fund to provide crisis facilities and policy advice in an age of global capital flows. To ensure that the Bank and the Fund are equipped for the tasks ahead, and that their governance is representative of global shifts in wealth and power:

- ❖ *The heads of the IMF and the World Bank should be chosen on merit, rather than automatically given to a European and an American, respectively.*

- *Both the World Bank and the International Monetary Fund should undertake serious efforts at institutional reform including:*

    1) giving greater voting power and board representation to emerging economic powers in Asia and Latin America.
    2) Wherever possible, European representation should be consolidated into two seats — eurozone and non-eurozone — in order to strengthen European influence and cohesion, while providing room for new leaders to join the U.S.-EU partnership.

- *The roles of the World Bank and IMF should be more clearly delineated, with each focusing on developing its core strengths so that they are better able to cooperate in developing countries.*

- *The Bank and the Fund should each reach out to regional partners, including the regional development banks and local currency arrangements, clarifying their roles and reinforcing global governance.*

- *Closer coordination between the Fund and the Bank should be encouraged, including "double-hatting" of executive directors.*

- *Planning should begin now for an eventual merger of the Bank and the Fund, to take place no later than 2030.* A merger will encourage these institutions to become more efficient, and to coordinate their efforts in developing comprehensive approaches that will best equip developing countries to participate in the global economy.

The "Group of Eight" (G8) has evolved in many different directions since its origins as an informal forum at which democratic leaders could discuss major international economic issues. If the G8 is to regain its role as the flagship forum for strategic discussions among the major governments, it must now move on two tracks:

- *The G8 at the heads-of-state level should focus on political issues, and less on major economic topics.* This is in keeping with the way the annual summits have developed, and there is much benefit to be derived from holding such broad ranging and high-level political discussions on a yearly basis.

- *The finance ministers, working in a new "G7 Plus" format, should become the primary advisory body of the global economy.* This group should now be open to the leading emerging economies, including Russia, China, India, Brazil, South Africa, South Korea, and others who play a major role in global economic well-being.

- *To reinforce the G8, the United States and the European Union should reinvigorate their bilateral consultation mechanism and summit process to adequately address global economic governance, bringing in the relevant political and economic players from both sides.*

The Organization for Economic Cooperation and Development (OECD) was initially seen as the economic counterpart of NATO, but it has expanded its membership beyond the Euro-Atlantic region, while continuing to monitor economic progress and promote "best practices" in economic policy among democratic and market-oriented governments. In the future:

❖ *The OECD should maintain its role as the economic club for democracies and market economies, while broadening its membership.*

❖ *The OECD should strengthen its efforts to serve as a testing ground for creative thinking on relevant economic issues.*

Despite the obvious importance of the international energy market to the global economy, it has been almost entirely lacking in governance. That market now faces significant changes as developing countries and state-owned oil companies become much more important suppliers, and natural gas becomes a larger portion of both demand and supply. Competition for supplies is likely to rise as China and India become truly major consumers of energy. The International Energy Agency (IEA) has played a constructive role among OECD members in facilitating measures to ensure the security of oil supplies; it is now time to develop the IEA into a more global institution that can begin to address these larger challenges. To that end:

❖ *The IEA should become the primary institution for global energy governance, developing special partnerships with China, India, and other non-OECD consumers, with a clear timetable for membership.*

❖ *The IEA should engage in a more extensive dialogue with the producer states, with a special emphasis on reaching out to the largest producers, such as Saudi Arabia and Russia, whose supplies can make a real difference during a crisis.*

❖ *The enhanced IEA should be given a mandate to facilitate cooperation over natural gas supplies in case of emergency.*

During the past sixty years, one of the most ambitious and successful elements of international economic governance was the launching of multilateral trade rounds. Under the GATT, tariffs and quotas were reduced significantly, and more liberal trade in goods and services helped spur global prosperity. The creation of the World Trade Organization (WTO) in 1995 as a successor to the GATT seemed to crown the creation of the global trading system. Although that progress is now overshadowed by the difficulties of the Doha Development Round, the WTO must be preserved and strengthened as a major institution in the management of the global economy. To reinforce the WTO:

❖ *The United States and the EU should lead an effort to encourage the increasing number of bilateral and regional trade accords to be compatible with WTO requirements, including that they cover substantially all trade between the parties.*

❖ *The United States and the European Union should recognize the WTO dispute resolution process as a significant accomplishment and work to strengthen it further.* The dispute settlement process has developed into one of the most effective international tribunals, with a considerable record of jurisprudence. The United States and the EU should resist any temptation to weaken the neutral, third party adjudication that is at the heart of dispute resolution, and take the following steps to strengthen that process:

1) Dispute resolution should be made even more transparent, with hearings and appeals open to the public and non-parties allowed to file *amicus* briefs;
2) Additional assistance should be provided to developing countries to improve their capacity to enforce trade agreements and use the dispute resolution process;
3) The WTO should reach out to the governing bodies of other trade agreements to provide advice and assistance in setting up dispute resolution bodies.

Enhancing Transatlantic and Global Markets

Just as the United States and the European Union must take the initiative to reshape the architecture of global economic governance, they must lead in developing a new approach to reducing the remaining barriers to trade and investment, with the eventual goal of creating a global market. No matter its final outcome, the Doha Round has demonstrated that the era of the traditional trade round is over. Not only have the negotiations proven difficult, but such rounds do not address the regulatory obstacles that are now the most significant barriers to trade. Nor can the international community wait six or seven years for multilateral negotiations to establish the rules needed for open commerce, especially in today's rapidly changing economy. In a significant paradigm shift, it is unlikely that the Doha Round will be followed by a similar Round anytime in the near future.

In this environment, it is time for the United States and the European Union to exert leadership by showing a new way forward, one that will make the WTO innovative and more relevant in the current global economy. They should move immediately to begin reducing regulatory barriers and investment obstacles between themselves. After the conclusion of the Doha Round, they should reach out to other like-minded WTO members and take the lead in initiating a set of negotiating efforts that will allow those committed to further liberalization to do so within the WTO context. In a form of "variable geometry," different members are likely to be involved in each effort, depending on their interests and capacities, yet in the end, all will benefit from the reduced barriers that should result. The agreements that emerge should be fully compatible with the WTO, and buttress the position of that organization as the primary institution governing world trade.

As a first step toward this more open global market, the United States and the EU should negotiate a series of agreements aimed at creating a barrier-free "Enhanced Transatlantic Market." This will reinforce the strength and interdependence of the existing transatlantic economy, but the United States and the European Union must also ensure that there are benefits for developing economies.

- ***The United States and the European Union should establish a barrier-free Transatlantic Investment Market.*** Given the increasing importance of investment in the transatlantic economy, the United States and the EU should negotiate a comprehensive investment accord that would remove barriers for all transatlantic investments, except for narrowly defined national security exceptions. This agreement should also establish guidelines for a review process to ensure that national security exceptions are appropriate. This would include:

1) An emphasis on minimum standards of corporate governance and transparency for investors, rather than on limiting investment by state-owned companies.
2) An agreed and narrow definition of "critical infrastructure," along with an understanding that foreign investment restrictions would only apply to specific facilities, rather than entire sectors of the economy.
3) A process that is timely, transparent, and accountable, in a manner that protects legitimate proprietary information.

❖ *The United States and the European Union should launch negotiations for a Framework Regulatory accord.* Increasingly, barriers to commerce in both goods and services come not from quotas and tariffs, but from regulations and standards. To take the first steps toward removing these barriers, the United States and the EU should:

1) Develop guidelines for the process of establishing regulations, such as advance notice to transatlantic stakeholders and other measures.
2) Identify a few high-profile areas, such as energy and environment, for early agreements, as a way of demonstrating success fairly quickly.
3) Agree to rely on mutual recognition of standards and regulations as the usual practice.
4) Provide assistance to developing countries designed to increase their capacity to implement — and eventually join — a regulatory accord.

❖ *The United States and the European Union should liberalize their trade preferences for developing countries with the goal of achieving a single set of rules that assures the greatest degree of market access for those countries.* In order to overcome the inevitable suspicions that this would be a developed country pact against the developing world, Washington and Brussels should, from the beginning, take steps to ensure that the developing countries benefit from this arrangement.

Beyond creating an Enhanced Transatlantic Market, the United States and the European Union must lead a broader effort to remove trade barriers in the global economy by engaging other major trading nations in negotiating additional WTO accords. After the conclusion of the Doha Development Round, they should seek innovative ways to reinvigorate the process of removing barriers and addressing obstacles not currently on the WTO agenda. The United States and the EU must initiate this effort, but they must also recruit others to participate from the outset. The result should be a barrier-free marketplace between willing WTO members, based on agreements that are fully WTO-compatible and rely on the WTO dispute resolution process. As examples of the type of agreement that might be reached through this method:

- *The United States and the European Union should lead an effort with like-minded WTO members to eliminate barriers to trade in goods and services over the next ten years.* This effort would engage those WTO members committed to further liberalization with the ambition of eliminating barriers to trade in goods and services and extending those benefits on an MFN basis. Exemptions on certain products would help avoid the "free rider" problem from countries unwilling to liberalize.

- *The United States and the European Union should recruit other interested WTO members to negotiate agreements to liberalize market access in specific sectors, especially those dominated by new technologies, like nanotechnology*. The agreement on Trade in Information Technology Products (ITA) could serve as a potential model, as could the 1998 Protocol on Telecommunications.

- *The United States and the European Union should work with like-minded WTO members to reduce barriers in areas that extend across sectors.* This effort should particularly address those issues not currently on the Doha agenda, such as competition policy and government procurement.

Managing a Global Energy Market

Even though an enhanced IEA provides some governance within the global energy market, the United States and the European Union must work together and with others to address other issues related to a stable energy market, including: the lack of transparency in the market; the increasing reliance on unstable countries for supplies; and the environmental consequences of energy use. In particular:

- *The United States and EU should reinforce market mechanisms in the energy sector, with an emphasis on setting transparency and governance standards.*

- *The United States and the EU should develop a more united policy toward Russia and its energy companies, based on the principles of the Energy Charter, to which the United States and Russia should accede.*

- *The United States and Europe should identify mechanisms for joint action in protecting energy supplies and related critical infrastructure.*

- *The United States and the EU should launch a new, jointly funded effort to develop future energy technologies that will both improve efficiency and reduce global warming, as part of the development of a new, post-Kyoto international consensus.*

- *The United States and Europe should push the global community to establish an international nuclear fuel cycle bank that will allow the development of civilian nuclear energy and reduce the risks of nuclear weapons proliferation.*

Transatlantic Leadership for a New Global Economy

The Challenges of Transformation and Leadership

In the last fifty years, the international economy has undergone a fundamental transformation. It has become a truly global phenomenon, as barriers to international commerce have fallen, and economic power has shifted to the east and south, encompassing more players. While trade remains important, international capital markets and investment have grown tremendously in volume and become increasingly crucial to the health of the global economy. But globalization has also brought very difficult challenges. The governance structures established in the postwar era to provide stability in the world economy are now inadequate to meet some of the most pressing tasks. Those institutions now risk losing their relevance if they do not adapt to the realities of today's global economy. Nor has everyone benefited as domestic economies have joined the global market, and in some quarters economic nationalism is gaining strength. The international economy is now at a crossroads — will the future bring more globalization, or a backlash with higher economic barriers aimed at protecting distinctive regional, and even national, economic arrangements?

The United States and Europe have traditionally been the indispensable leaders of the international economic system. They dominated the international institutions that they had created, and their bilateral agreement was often sufficient to determine the way forward in managing the international economy. Recently, however, transatlantic leadership in the global economy has been a distant memory, with some even predicting that the United States and the European Union are on the road to creating rival trading blocs. The emerging economic powers rightly insist that the old bilateral pattern of leadership is neither just nor sustainable.

A new leadership structure — one that will be effective in this age of globalization — must take into account the scope of today's commerce, as well as the much broader distribution of wealth and power. Companies now operate with production facilities and markets in many different countries, and move money and goods across multiple national boundaries. Investment, rather than merchandise trade, is rapidly becoming the most important type of international transaction. Domestic economies, previously viewed as largely autonomous, are increasingly linked to each other and vulnerable to events outside their borders. This interdependent economy brings not only efficiency and prosperity, but also risks. Capital now flows quickly and sometimes unpredictably around the world, as demonstrated by the 1997 Asian financial crisis that spread to Russia and Latin America, doing serious damage to economies and greatly affecting the middle classes. Increased competition for energy supplies only adds to this volatility. Direct investment creates jobs and exports, but foreign owners are viewed, rightly or wrongly, as more likely to abandon domestic operations and outsource valuable jobs, while ownership of a key piece of infrastructure is sometimes seen as a threat to national security. Regulations established by one government to address its own domestic priorities increasingly affect corporations around the world on everything from food safety and environmental protection to mergers and financial services. In many areas, including investment, regulation, and energy, no effective mechanism exists for reconciling domestic priorities with the health of the international economy overall.

The international institutions intended to provide stability and openness in the world economy have struggled to keep up with this increasingly diverse international market. Created over a broad span of years — from the wartime Bretton Woods conference in 1944 to the IEA in the mid-1970s to the birth of the WTO in 1995 — these institutions were designed to liberalize the world economy while eliminating the worst pockets of poverty. For many years, they fulfilled their mandates reasonably well: reducing barriers to trade; promoting economic and financial stability; and providing development assistance. Through these efforts, they helped to provide order and legitimacy in the world economy. Indeed, as new countries declared independence or moved away from command economies, they sought to join the WTO, the IMF, and other institutions as an indication of their new status, and of the importance and success of these organizations.

But these institutions were designed for a different era and are less suited for the complexities of globalization. Although most have experienced some reforms, they continue to be guided by their original mandates, even though the challenges they were designed to face have changed considerably and will shift even more in the future. The International Monetary Fund still focuses on helping countries cope with external imbalances, even though fewer governments are now at risk and private capital markets are now robust and available to developing countries. The World Bank, established to help the poorest countries in part by providing capital for infrastructure and other development projects, has seen a number of countries graduate out of poverty and private capital markets emerge as a viable alternative to its own loans. The Doha Development Round of the WTO has emphasized increasing market access for agricultural goods from developing countries and manufactured goods and services from the developed world. But there is no equivalent mechanism for reducing barriers in other areas, such as investment, that are now central to the global economy. Despite the increasing importance of energy, that sector lacks an institution with a sufficient membership and mandate to provide significant global governance.

These institutions have also largely failed to bring emerging economic powers and other influential actors into the decision-making arena. A new set of countries with strong and growing economies — including China and India, but also Brazil and others — now have a larger stake in the global economy and should have a role in its management. Today, "emerging economies" represent 45 percent of global GDP (purchasing power parity), 40 percent of world exports, and 65 percent of foreign exchange reserve holdings.[1] This is comparable to the combined economic position of the United States and European Union, yet the emerging economies play a much less central role in global economic governance. The new actors are not just governments, however. Global corporations, some with an annual income beyond the GDP of many countries, must also be counted among the key players in the international economy. Corporations guide much of the capital and investment flows around the world and their procedures and standards provide another layer of global

1 "The New Titans: A Survey of the World Economy," *Economist*, September 16, 2006. The Economist defines "emerging economies" as all those except the pre-1994 OECD members.

governance. Finally, non-governmental organizations have already demonstrated their ability to frustrate trade talks or the development of a global investment regime. They must be brought into the process of global economic governance if globalization is to be seen as benefiting all.

The United States and its European allies have traditionally dominated the institutions charged with global economic governance — a European has always headed the IMF and an American the World Bank, while the G8 has been largely a transatlantic club. This domination has not, however, led the United States and the EU to reinvigorate these institutions to deal with the global economic transformation. Rather than working to lower barriers in investment, the U.S. and European governments have too often sought to protect jobs and resist foreign control of "national" firms. They have reached out to the new players in the global economy, but to enlist allies against each other in multilateral trade talks, rather than bringing them into the governing circle. In the meantime, the challenges facing the global economy and its governing structures continue to mount.

Letting the international economy drift without renewed leadership is no longer an option, however. The consequences of the current inertia are already visible — even as the global economy becomes more integrated, its governance is beginning to fracture. While multilateral trade negotiations have stalled, a growing number of regional and bilateral accords have emerged, some with competing rules and incentives. In finance, Asian governments have begun to develop arrangements that may become an alternative to the IMF, while China has made no secret of its desire to play a wider leadership role. South Africa, India, Brazil, and others may each envision a regional role for themselves. If global institutions weaken further, these regional tendencies may come to dominate the international economy.

This regionalism has been reinforced by the rising specter of economic nationalism. The pressures of globalization have created a backlash, leading some governments to protect their domestic economy. After the fallout in the United States from the Dubai Ports World case and the decree in France creating hurdles to foreign investment in a variety of sectors, other countries, such as Russia and China, now seek ways to limit foreign investment. Some protections are legitimate; no one would argue that national security considerations should be immaterial to the question of who controls critical industries and infrastructure. But in Europe and the United States (as well as elsewhere), the political leadership seems to have abandoned a long-standing commitment to reducing barriers in the international economy in favor of a rhetoric that emphasizes threats to the domestic economy. As these attitudes threaten to proliferate from one country to another, the trend toward a more open world market may be reversed.

This environment requires a significant and concerted response on three fronts:

- ❖ **The United States and European Union should convene the major and emerging economic powers in a Conference on Global Economic Governance aimed at restructuring the existing institutional architecture.** A new consensus must be developed so that the key institutions — including the G8, WTO, World Bank, IMF, OECD, and the IEA — can be reshaped and their mandates adapted. Only then will they be able to deal with current and future challenges and to reflect the shifts of wealth and power in the global economy.

- **The United States and the European Union should establish a barrier-free "Enhanced Transatlantic Market," while leading a reinvigorated effort to reduce barriers to trade in the global market.** The United States and the EU should reduce regulatory and investment barriers, and after the Doha Round, should work with like-minded countries to move past the difficulties of traditional multilateral trade regulations by finding other ways to continue liberalizing within the WTO context.

- **The United States and the European Union should undertake a joint effort to strengthen the global energy market.** In collaboration with other major and emerging consumers, they should work to reinforce market mechanisms by emphasizing transparency, while also seeking greater stability in supplies.

For the United States and the European Union to reinvigorate their partnership in leading the global economy — and to strengthen that leadership by bringing in new economic powers — they must change their recent behavior. To start, they must recognize the great stake they both have in the growth of an open global economy, rather than in the spread of economic regionalism and nationalism. Instead of seeking allies who can provide an advantage against the other — as has too often been the case in the Doha Round — the United States and EU must address their differences more constructively. In agriculture, for example, instead of seeking to preserve subsidies and tariffs at all costs, the U.S. government and the EU should discuss the likely evolution of their farm policies and identify some common ways forward. If this is to happen, however, the United States and the EU must have adequate mechanisms for determining how they wish to cooperate. The current mechanism of regular summits and many other consultations — the New Transatlantic Agenda — which has governed the U.S.-EU dialogue since 1995, has largely failed to address the key challenges of the global economy. This process must be reshaped or another, more effective, mechanism must be found.

A reinvigorated transatlantic partnership will also require that Europe is an adequate partner. Today, this is the case in trade policy, where negotiating authority largely resides with the European Commission. Europe may sometimes be divided internally, and may be a difficult negotiating partner on trade issues, but it is more similar than different to the United States, with its own divide between executive and legislative branches. But in policy areas key to today's global economy — investment, regulation, energy, and others — authority in Europe still rests with the 27 member states. Indeed, the rules and decision-making authorities differ from issue to issue. Europe must move to unify in these areas, just as it has started to do in monetary policy. Only through the EU will European countries have enough weight to exercise real leadership in the global economy.

As for the United States, it should embrace the European Union as "Europe" in these matters. President Bush's visit to the European Commission in February 2005 was an important symbol. But Washington should now make the EU its primary partner on global economic matters. The member states will remain crucial contributors to European decisions, and should not be neglected by U.S. policymakers, but the European Union must be encouraged to present a unified position if it is to be part of the new leadership of the global economy.

Rebuilding Global Economic Governance

In the years following World War II, a key set of institutions was established to provide governance in the international economy. Meeting at Bretton Woods, New Hampshire, in 1944, the Allied powers created the International Monetary Fund and the World Bank, and signed the General Agreement on Tariffs and Trade (GATT). The Organization for European Economic Cooperation, established to manage Marshall Plan aid, became the Organization for Economic Cooperation and Development in 1961. In the wake of the 1973 oil crisis, the OECD set up a subsidiary, the International Energy Agency. The major economic powers started the G5 (now the G8) at Rambouillet in 1975 as an informal forum for dialogue among key democratic leaders on major international economic matters. The GATT was succeeded by the WTO in 1995. These institutions have served collectively to address the major economic challenges of the second half of the 20th century — the transition from colonialism to market economies; the end of fixed exchange rates, and the liberalization of trade. They did much to smooth out the worst extremes of the evolving global economy, and provided for a dialogue among key players.

But these organizations — despite their past successes — can no longer continue as they did in the 20th century. There is now increasing concern about the internal efficiencies of these institutions, the representation of emerging powers within their memberships, and the scope of their mandates. The institutions themselves are well aware of the need for change, as demonstrated by the WTO's commissioning of the "Sutherland Report;" the development of the IMF's "Medium Term Strategy;" and the decision of the IMF and the World Bank to appoint an External Review Committee headed by former Brazilian Finance Minister Pedro Malan to examine Bank – Fund cooperation. In addition, many independent experts have put forward specific proposals for reform on issues ranging from membership representation and voting shares to information sharing and basic management. Many of these are very worthy of discussion and some would undoubtedly be useful in streamlining decision-making processes or enhancing transparency.

Such internal reforms are likely to be valuable, but they do not fully address the primary problems facing these institutions: bringing new countries into the leadership circle and developing a mandate to tackle current challenges. This will require the United States and Europe — past leaders of the global economy — to construct a new bargain with the emerging powers and together restructure the institutions to provide the governance needed for today's economy. This cannot happen incrementally or through separate internal institutional reform processes. Instead, a comprehensive approach is required. Just as the leaders at Bretton Woods created the institutions that met the challenges of the second half of the 20th century in building a more stable, prosperous, democratic, and free market world, a new consensus on the system of international economic governance is required today.

The United States and the European Union should take the lead in developing this consensus by convening the major and emerging economic powers in a Conference on Global Economic Governance. The time for an exclusive gathering of western powers is now well past. Rather, this meeting should bring together all the major economic and political powers, including those that have yet to realize their full potential. A G8 meeting expanded to include representatives designated by the G20 would be the most appropriate vehicle for launching this effort and ensuring that the essential actors are engaged. Together, these governments should identify the challenges facing the global economy, and plan for the institutions and mechanisms that will be required to deal with them. They should focus high-level attention on the need for restructuring by setting a follow-up conference within a year, thus generating the needed political impetus that will drive reform forward.

Some may argue that any effort launched by the United States and the EU will do nothing but reinforce the current outmoded leadership structure. That is surely a danger, and one that the U.S. and European governments must work to dispel. Yet the fact remains that no one else is likely to take the initiative to begin building a new consensus. To counteract such suspicions, the EU and the United States must immediately make clear that others are expected to play significant roles at the conference and should draw in several of the emerging economy governments to help define the agenda. As a symbol of the geographical shift in economic growth and power, the meeting should be held outside of the Euro-Atlantic region; Asia may be the most appropriate locale.

In developing the agenda for this effort, the focus should go beyond the current state of the global economy, and plan for the challenges of the next twenty-five years. The agenda must reflect the emergence of China, India, and other members of the G20 as economic powerhouses, and the graduation of other countries into the ranks of "emerging economies." Global poverty will persist, but there will also be more resources, including those of private capital markets, available to governments seeking financing for investment. As countries develop, they will become major consumers of energy, with all the environmental, economic, and security consequences that entails. Between 2004 and 2030, more than 70 percent of the increase in global energy demand will come from the developing world, while the industrialized countries' overall share of that demand will drop from just under 50 percent to forty percent.[2] Economies around the world will be more and more integrated, but differing EU and U.S. standards and regulations will compete to become the global norms. Trade flows will continue to increase, but foreign direct investment and capital flows will also escalate and spread to more countries. Thus, a new architecture for global economic governance must be ready to deal with a more integrated and prosperous world, but also one that is more diverse and volatile.

The first step in building this new architecture will be to convince the emerging economies that they have a stake in more effective governance of the global economy and that the strongest among them should take on a leadership role. This will require much more than rhetoric, or incremental reforms, such as shifting voting shares at the IMF. The emerging economies must clearly see that the traditional leaders are willing to give up some of the areas they have dominated while some new powers, such as China and India, take on the responsibilities of management. In particular, the latter must have a greater role — both symbolically and in actuality — in the governing institutions.

Rebuilding global economic governance for the 21st century will also require untangling the overlapping duties and mandates of the major institutions and identifying an appropriate division of labor that is suitable for today's global economy. When these institutions were established, the division of labor among them was fairly clear. But as their activities have shifted, and as more countries have "graduated" from low-income to emerging, and even to advanced, the division of responsibilities has become rather muddied. The relationship between these global institutions and the growing number

2 International Energy Agency, *World Energy Outlook 2006.*

of regional arrangements — from the Asian Development Bank to the Southern African Development Community trade accord — should also be examined so that such regional arrangements will reinforce global governance rather than compete with multilateral institutions.

Determining a new division of responsibilities must be done by engaging all the major member states. It should not be forgotten that the members make the major decisions about these organizations, not the institutions themselves. Thus, the members will decide whether a particular mandate is appropriate for a specific institution or not. It is not enough simply to bring the institutions together and let them bargain about their futures. Without sufficient engagement from the major member states, any effort to restructure global economic governance will be stillborn; only the member governments can provide the political will to make such an effort succeed.

As the United States, the European Union, and their partners launch this effort to develop a new consensus, it seems most appropriate to include the World Bank and IMF, the G8, the OECD, the IEA, and the WTO. In the future, however, other institutions may rise in prominence and importance, and some of these may seem less relevant than they are now.

Renewing Bretton Woods

Since their creation, the World Bank and the IMF have worked with governments to alleviate poverty and promote economic and financial stability throughout the world, contributing greatly to the more prosperous and stable global economy we have today. As they look forward to the future, however, they face some significant challenges, not only in terms of internal management and governance, but in updating their mandates to respond to today's global economy. For the past sixty years, the World Bank has been a major source of technical expertise and financial resources to the developing world, providing loans and, more recently, grants to poor countries for development projects. The IMF was created to help countries tackle currency crises due to exchange rate difficulties and current account imbalances. It did so by providing financial resources, but also policy advice. Together, the Bank and the Fund were expected to provide a full range of technical assistance and financial support — both on the micro- and macroeconomic levels — to developing countries as their economies grew.

Both the Fund and the Bank are justified in claiming some success over the past half century. The Fund has seen the liberalization and opening of the global economy of a large number of countries: Overall, it has experienced a long-term secular decline in the number of countries requiring its programs (apart from a brief upsurge as the Central and East European countries transitioned to market economies). Many countries are much more stable, in part because they have implemented programs devised by the Fund. Similarly, the Bank has seen an overall decline in global poverty, with a number of countries advancing to the point where they no longer need the concessionary loans provided by the Bank. Yet poverty still exists around the world and in some areas has proven tragically persistent. In recent years, the Bank has remained active globally, but it has increasingly focused on situations of persistent poverty, now offering grants and debt cancellation for some of the very poorest countries, and in keeping with the UN Millennium Development Goals (MDGs), adding good governance and anti-corruption measures to its objectives, along with more traditional poverty reduction strategies. Both the Bank and especially the Fund now face a challenge of relevance — as the demand for their services changes, so must their response.

This situation has been compounded by the rise of alternatives to the Bank and Fund. Private sector capital is now available to an extent unimaginable to those attending the Bretton Woods conference. National finance ministers, charged with securing funding for a major infrastructure project in a developing country, can often secure a loan in a matter of weeks from the private sector, instead of waiting a year or more for World Bank approval. Similarly, private capital can often help countries weather short-term macro-economic imbalances without imposing IMF conditionality. Regional development banks also can provide alternatives to World Bank financing, and often have the advantage of more local focus and governance. The Fund also faces potential competition from regional arrangements. For example, the Chiang Mai initiative has established a mechanism for lending among Asian governments, and although it has yet to be tested in a crisis, it demonstrates the desire of those governments to find an arrangement that is responsive on a regional level. Chiang Mai can be viewed either as a valuable supplement to the IMF (it requires IMF involvement to be fully activated) or as a future competitor that will reduce the demand for Fund services even further. Finally, national foreign assistance programs, as well as UN programs and agencies, may also provide alternatives to World Bank support. As more countries graduate from “developing” to “developed,” and initiate their own assistance programs, the range of such alternatives may grow. A recent significant entrant into the market is China, which has started funding roads and other infrastructure projects in Africa and elsewhere. This proliferation of donors is not always an asset, as they bring many different motivations and do not always uphold current best worldwide standards in providing assistance. For example, while Chinese willingness to provide aid money is a positive step in some ways, it is often done for Chinese economic and political reasons, with little focus on what will actually help the developing country and without the conditions the World Bank and IMF properly propose. Moreover, too many Chinese projects involve importing Chinese workers, and thus forgo any opportunity to boost skills and employment among the local population.

There is still likely to be a significant need for the services of the Bank and the Fund in the future. While fewer countries are likely to be poor in the future, those that fall in this category are likely to suffer from a complex range of issues, from capital shortages and infrastructure failures to corrupt governance, and even state failure. In the future, they will face the challenges of securing adequate energy resources and perhaps dealing with the consequences (desertification, violent weather) of global shifts in climate, as well as the impact of HIV/AIDs and potential pandemics. The Bank will have an important role not only in helping individual countries cope with these challenges but in providing advice on “best practices” and standards throughout the development community.

As for the Fund, there is likely to be more demand for its services once the current business cycle turns from positive to negative. There is doubt that the Fund will have to resolve a crisis of the type it addressed in Mexico in 1994, or in Asia, Russia, and Latin America in 1997-98. In the future, such crises are likely to be managed through the market or to be so massive (involving the United States or China, for example) that the IMF would be unable to cope. On the other hand, the Fund has a key role in preventing such crises through its surveillance of country finances and its advice to governments on economic policy. It also still serves as the “lender of last resort,” especially for the most unstable economies.

The Bank and the Fund have responded to these changes in their environment in several different ways.[3] In some cases, they have reached out beyond their mandates, in effect seeking "new business" by extending the range of their activities. Since they work in many of the same countries, this has sometimes led to inefficient overlap in their programs, as, for example, when the Fund has become active in the financial services sector, rather than focusing on providing macroeconomic policy advice. They have also undertaken internal reviews. In 2006, such a review led the World Bank to enhance its ability to offer debt forgiveness to the poorest countries. The Fund has developed a "medium term strategy" that not only highlights the importance of intensified surveillance, but also looks to the Fund undertaking closer monitoring of exchange rates and capital markets, and developing an additional facility for loans aimed at crisis prevention. The Fund has also undertaken a readjustment of voting shares and quotas in order to provide the emerging economies with a larger governance role.[4] Most recently, the Bank-Fund External Review Committee chaired by Pedro Malan has recommended that the two institutions strengthen collaboration at all levels.[5] Many of these efforts have been incremental, and focused on improving the internal workings of the Bank and the Fund. **But if the Bank and the Fund are to be effective institutions in the future, they must take bigger steps to deal with the truly global economy and ensure that their governance reflects the shifts of economic power to major new emerging economies:**

- ❖ **The heads of the IMF and the World Bank should be chosen on merit.** This will require the United States and the EU to give up their automatic leadership of these institutions. As long as they reserve the top positions at the Fund and World Bank for themselves, statements about including emerging economies in the leadership circle will seem empty. These positions are not only important symbols but also should reflect the realities of global economy. Moreover, because these institutions are focused on economic and financial stability issues that are most likely to affect emerging economies and the problems of poverty that affect the poorest, it is especially important that their leadership reflects their real constituencies. The United States and the EU will still exercise considerable power, both through the governance structures and their financial contributions to these institutions. If developing countries and emerging economic powerhouses are to take these institutions seriously and become real stakeholders in their success, rather than give priority to regional institutions that compete, they must be given a genuine leadership role. The Malan report has put forward a similar recommendation, and it is time for this measure to be supported.

- ❖ **Both the World Bank and the International Monetary Fund should undertake serious efforts at institutional reform to ensure their governance is representative of the global shifts of wealth and power.** In particular:

  1) *European representation should be consolidated into two seats — eurozone and non-eurozone — in order to strengthen European influence and cohesion, while providing room for new leaders.* Because Europe

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[3] For a survey of some of these issues, with recommendations, see Michel Camdessus, "International Financial Institutions: Dealing with New Global Challenges" (Washington DC), Per Jacobsson Foundation Lecture, September 2005.

[4] For a thorough discussion of various aspects of IMF reform, see *Reforming the IMF for the 21st Century*, edited by Edwin M. Truman (Washington, DC: Institute for International Economics) Special Report #19, April 2006.

[5] Final Report of the External Review Committee on IMF-World Bank Collaboration (The "Malan Report"), February 2007, www.imf.org.

is still represented in the IMF and World Bank by national governments, Europe is seen as overrepresented. Moreover, these multiple national memberships fracture European unity and reduce the influence of Europe as a whole. Consolidation would provide room for new leaders without increasing the number of participants so much that already cumbersome decision-making processes and consultations would become even less efficient and effective. Second, a more integrated European representation would help push Europe toward more unified positions. In the IMF, a common European seat would control enough voting shares to act as a veto. Consolidating representation would strengthen European power in these institutions — including vis à vis the United States — and would force the development of a European Union that is a more united and effective partner in leading the global economy.[6]

2) *U.S. and European representation in terms of voting shares and executive directors should also be rebalanced, especially at the IMF.* The IMF has already embarked on a process of re-examining its current distribution of voting shares. In September 2006, four countries — China, South Korea, Turkey, and Mexico — received slight increases in their shares. But others, including India, argue that this was insufficient, and the Fund has pledged to overhaul its voting structure over the next two years. In doing so, it should ensure that the major emerging economies have a significantly larger role; the fact that an increase in voting shares will require those countries to also increase their quotas will given them both power and responsibilities. Along with a redistribution of votes, the distribution of executive directors should be re-examined. Among the current executive directors of the Fund, seven out of 24 are from the EU. Because of the system of shared directors, they represent some non-EU countries. Not only should the European representation be combined into two seats, but shared directorships should be reordered more closely along regional lines.[7]

❖ The roles of the World Bank and IMF should be more clearly delineated, with each focusing on developing its core strengths so that they are better able to cooperate in developing countries.

1) *The World Bank should continue to focus on providing the loans and grants needed for development projects aimed at poverty reduction, and should concentrate on the poorest countries, where poverty has been most persistent.* So that its resources can be used most effectively, those countries where the private market is now likely to provide the necessary financing should be pushed to "graduate" from World Bank programs. And as more national governments undertake foreign aid programs, the Bank has an important role to play in providing guidance for those engaged in large infrastructure projects or lending programs, and ensuring that all support the UN Millennium Development Goals. The Bank, along with the IMF, should encourage China, as an important new donor, to develop international standards of transparency and

[6] For a discussion of European representation in international economic institutions and what Europe must do to play a larger role in global economic governance, see Alan Ahearn, Jean Pisani-Ferry, André Sapir, and Nicolas Véron, *Global Governance: An Agenda for Europe* (Brussels: Bruegel), Bruegel Policy Brief, December 2006.

[7] For a discussion of these options and others, see "Rethinking the IMF Business Model: Proposals for Assessment and Reform of the IMF's Medium-Term Strategy," by Angel Ubide, in *The International Monetary System, the IMF, and the G20*, World Economic Forum (London: Palgrave) 2007.

anti-corruption in its projects.

2) *The IMF should focus its role on providing the policy advice and surveillance that will encourage private capital markets to handle most imbalances, while also remaining prepared to be the lender of last resort.* The Fund should take on a more active role in addressing global economic imbalances, despite the current reluctance by some members to engage on this matter. The IMF can also do more to prevent imbalances, especially among the poorer and emerging economies, but it will need adequate resources. The IMF should not be forced to spread its resources too thinly because it must treat all members equally, but instead should focus on the countries where its assistance can make a very real difference.

❖ **The Bank and the Fund should enhance their outreach to regional partners, reinforcing global governance.** The Bank should clarify its relations with the multiple regional development banks, such as the African Development Bank and the Inter-American Development Bank, identifying an appropriate division of labor, but also an effective means of collaborating with them so that duplication is eliminated and efficiency increased. Together, these development banks should foster the same standards and objectives, based on the MDGs, thus ensuring that they are working to the same ends. The IMF should also increase its outreach to regional currency arrangements, from currency unions, such as the CFA Franc Zone in Africa and the Eastern Caribbean Currency Union, to financial facilities, including the North American Framework Agreement (the financial arm of NAFTA) and the Chiang Mai initiative. The Fund can provide valuable technical assistance, pushing regional groups to work with similar standards and criteria so that none undercuts the others as national governments shop around for funds. The IMF will inevitably serve as an essential backstop to these regional funds, which will have fewer resources in times of crisis. For that reason, it has every reason to work closely with these groups now, so that they can be effective when the need arises.[8]

❖ **Closer coordination between the Fund and the Bank should be encouraged, including "double-hatting" of executive directors.** The Malan report has recommended that the IMF and World Bank develop a new "Understanding on Collaboration" to govern cooperation, and that is an worthy step forward. Cooperation should be energetically fostered between IMF and World Bank teams working "in country" where too often such collaboration has been rather haphazard and dependent on personalities. It might be useful to consider designating a "lead institution" on each country, depending on whether the government has more need of World Bank or IMF services. But cooperation must also be much stronger at the institutional level. The Malan report notes that there would be advantages in greater alignment between Fund and Bank boards. This proposal should be made a priority — by appointing the same person to serve as executive directors at the Bank and Fund, the member governments could ensure better awareness and coordination between the two institutions and reduce duplicate programs and activities. Differences in countries holding directorships may sometimes make this a less than perfect match, but because the most consequential players would be represented on both boards, this should generally work well. Combining the two jobs in one person may

8 For a discussion of the relationship between the IMF and regional currency arrangements, see "Regional Arrangements and the International Monetary Fund," by C. Randall Henning, in *Reforming the IMF for the 21st Century*, edited by Edwin M. Truman, Peterson Institute.

also cause the boards to review their involvement in daily operations, and encourage them to focus on more strategic issues. Most importantly, however, "double-hatting" executive directors will strengthen the ability of these two institutions to work collaboratively, but with minimum duplication, toward the same ends.

❖ **Planning should begin now for an eventual merger of the Bank and the Fund, to take place no later than 2030.** In hindsight, it might have been best if one comprehensive institution had been created at Bretton Woods. But Anglo-American differences over governance and other matters led to the establishment of a separate Bank and Fund. John Maynard Keynes, representing the United Kingdom, is said to have broken the logjam by stating that the bank should be a Fund, and the fund should be a Bank! As the Fund in particular faces reduced demand for its services in the future and the Bank finds its work focused more intently on the truly poor, there will be a real need for the two institutions to work together as efficiently as possible. They will be present in many of the same countries, and the potential for overlap will be great. While the first step is a clearer delineation of roles, the real ambition must be to work together to provide a comprehensive set of strategies and resources that will move countries away from poverty and economic instability. A well-constructed merger will allow the institutions to reduce duplication in administration and elsewhere, while encouraging a coordinated approach to the micro- and macroeconomic needs of developing countries.

An Expanded G8 for Global Governance

Since its founding in 1975 as an informal forum for dialogue among democratic heads of state on international economic questions, the G8 has evolved beyond all recognition. The agenda has moved beyond economic matters to energy, climate change, and even democracy promotion in the Middle East. No longer very informal, the annual G8 summit provides little opportunity to delve deeply into issues of global economic governance. Nevertheless, the issue of G8 membership has become controversial in recent years, as there developed a growing disconnect between the G8 identity as the group of leading international economic powers and the continued exclusion of major economies from membership. The situation was further confused by the admission of Russia in 1997, since that country could not claim to be a leading international economic actor, and was not yet even a member of the WTO. Russia's membership also eroded the G8's image as a club of free market, democratic countries. The G8 has made some modest attempts to engage other leading economies, such as China, Brazil, India, and South Africa, symbolically inviting their presidents to dinner. It has not, however, welcomed them into its inner discussions or provided them with a prospect for eventual membership. The G8 now faces an identity crisis. It can no longer claim to be an organization for the leading democracies as long as Russia is a member; but neither can it claim to be the leading institution for global economic governance when the emerging economic powerhouses are not included.

The G8 is much more than the annual summits among the heads of state and government, however. There are now regular meetings among finance ministers, usually in the G-7 format, without Russia. These have a lower profile, but have dealt with key issues, including blocking the financing of terrorist organizations and global currency imbalances. The finance G7 also provides informal oversight of the World Bank and the IMF, since the G7 countries are central to the governance of the two Bretton Woods institutions. In addition, the foreign ministers and environment ministers, as well as others, have met in the G7/G8 format, depending on the topic under discussion.

If the G8 is to regain its role as the flagship forum for strategic discussions aimed at guiding the global economy, it must evolve in two directions:

- **The G8 at the heads-of-state level should focus on political issues, and less on major economic topics.** This is in keeping with the way the annual summits have developed, and there is much benefit to be derived from holding such broad ranging and high-level political discussions on a yearly basis. As heads of state, the participants could clearly discuss economic matters when warranted, but that would no longer be the primary focus of the group. Initially, the European representation would stay as it is currently, but this could be revisited as Europe develops more common policies on the full gamut of issues. The G-8 will have to abandon the idea that it is a club of democratic countries, but that has been largely a fiction for the last few years, with the admission of an increasingly autocratic Russia. If the United States, Europe, and others wish to revive the notion of a dialogue among democracies, they should do so, but the G8 is no longer the right place.[9]

- **The finance ministers, working in a new "G7 Plus" format, should become the primary advisory body of the global economy.** This group should be open to Russia, as well as the other leading emerging economies, including China, India, Brazil, South Africa, South Korea, and others. A number of those countries already participate in the G7 finance meetings by attending the dinner, but this would formalize their involvement and bring them to the table to participate in all discussions. However, membership in the "G7 Plus" would not be automatic. Membership should come with responsibilities, and in particular, new members should be willing and able to contribute to solving global financial issues, such as balance of payments adjustment, financial regulation, and crisis management. In this new format, EU representation would be reduced to the eurozone and non-eurozone seats, plus the Commission. This would provide room for new members, and also reflect the EU's growing integration on international economic matters. With its expanded membership, the "G7 Plus" would include most countries of importance in the governance of the IMF, World Bank, and the OECD. It would thus be well placed to exercise some general oversight of those institutions, as well as to engage in some regular strategic thinking about the institutions and their role in the global economy.

- **So that the G8 can operate as something more than a transatlantic forum, the United States and the European Union should reinvigorate their bilateral consultation mechanisms and summit process — the New Transatlantic Agenda — to adequately address global economic governance by enhancing the focus on this issue and bringing in the relevant political and economic players from both sides.** It may seem contradictory to advocate an enhanced U.S.-EU consulting mechanism and summit process while arguing for

9 For a thorough discussion of these issues, and an argument that the G8 should be reshaped into an "L20," see Colin I. Bradford and Johannes F. Linn (editors), *Global Governance Reform: Breaking the Stalemate* (Washington DC: Brookings Institution), 2007.

greater developing and emerging country influence in managing the global economy. Yet these summits, along with the related ministerial and other meetings, are the appropriate forum for bilateral U.S.-EU discussions and decision-making — the multilateral institutions should not be expected to serve that purpose. The U.S.-EU summit currently is not structured to allow adequate opportunities for high-level consideration of these issues. The meeting is limited to a few hours once per year for economic and trade issues, but often the real negotiations are conducted in a separate channel with the U.S. trade representative and the European commissioner responsible for trade. As a consequence, non-trade economic issues are often neglected. The summit should allow the top U.S. and European leadership to review the global economic situation and outline their objectives for the international economic institutions over the coming year, including developing a coherent strategy across institutions. For this to happen, the EU presidency must attend these summits with a mandate to speak on issues of development, finance, investment, and other related topics. The EU must develop integrated positions on these issues, not only so that it can be effective within the institutions, but as a partner of the United States. The United States must have the full engagement of all its key agencies, including Treasury and the office of the Trade Representative, as well as the State Department and the White House in an "NTA Plus." Only when both the economic and political agencies are brought together will the U.S.-EU mechanism be adequate for addressing global economic governance in a comprehensive way.

Strengthening the OECD

Growing out of the Organization for European Economic Cooperation and the Marshall Plan, the OECD has not sought to include all countries, but instead has brought together democratic and market-oriented governments to promote economic prosperity and best practices in economic policy. While largely perceived by non-members, especially developing countries, as a club of the rich countries, the OECD does reach beyond to those seeking to develop in a market-oriented direction. Through its research and policy analysis, it tracks the progress of its members and others, and shares best practices on a wide range of issues. Internationally, it has developed numerous guidelines and standards for policy areas from corporate governance to taxation and anti-corruption; although these are negotiated by members, non-members may subscribe. Over the years, the OECD has moved farther from the original intention to serve as an economic counterpart to NATO, taking in as members Japan, Mexico, South Korea, and other democratic countries with market economies. It is currently considering adding more members and enhancing its engagement with a number of other large non-member countries. Its focus on monitoring economies and encouraging economic reforms has some overlap with the IMF, but its emphasis on democracies and market economies gives it a more particular niche, not unlike the tradition of the G8. **To strengthen its contribution to a reinvigorated structure of global economic governance:**

- **The OECD should maintain its role as the economic group for democracies and market economies while broadening its membership.** There is no need for every institution to be universal. While the OECD will undoubtedly expand its membership, it should remain selective. That selectivity should not be based on region, however (and has not been, for some time), but on adherence to free-market and democratic principles. The OECD serves an important function in responding to the needs of the more advanced economies, especially in providing effective monitoring as well as proselytizing about "best practices." Through its guidelines and standards, it should reach out actively to those countries that are not yet members.

- **The OECD should strengthen its efforts to serve as a testing ground for creative thinking on relevant economic issues.** While OECD analysis should continue to focus mainly, though not exclusively on structural issues, the organization should be encouraged in its role as a "think tank" for reinforcing market economies. Its broad network of experts, both in-house and in capitals, will be essential in developing ideas but also in testing receptivity among the members. As the United States and EU begin to explore the development of a barrier-free "Transatlantic Plus" market, the OECD can play a valuable research function, as it did with an earlier study on the value of deregulation in the U.S.-European market.[10] Similarly, it can serve as the research arm of the "G7 Plus" finance group, especially given the likely similarity in membership. For example, the IEA, a subsidiary of the OECD, undertook an extensive study of the impact of emerging energy technologies in response to a request by the G8 summit at Gleneagles.[11]

Establishing Global Energy Governance

The global energy market is undergoing several dramatic changes. First, the developing countries will become much more important as future suppliers. It is estimated that during the next forty years, 90 percent of new supplies will come from developing countries, whereas during the past forty years, 40 percent came from the industrialized world. Second, the predominance of the multinational oil companies has long since come to an end. These companies now produce only ten percent of the world's oil and gas and hold three percent of the reserves. State-owned national oil companies (NOCs) in Saudi Arabia, Russia, China, Iran, Venezuela, Brazil, and Malaysia now control more than thirty percent of the production and an equivalent amount of the world oil and gas reserves and about fifty percent of all oil reserves.[12] The NOCs have not traditionally been great practitioners of transparency; in fact, their past unwillingness to provide meaningful figures for reserves has led to great uncertainty about the extent of future supplies. Third, a massive shift in the global energy market will happen over the next twenty years as China and India become truly major consumers of energy. By 2030, China's share of world energy demand is expected to rise from 15 percent to 20 percent, and its share of global coal demand to increase rise from 36 percent to 46 percent. Starting from a smaller base, India's energy usage is expected to increase almost as fast, doubling between 2004 and 2030, from 573 to 1,104 tons (oil equivalent). Together, China and India will account for 57 percent of global coal use by 2030. Both China and India will more than double their use of oil during this time.[13] This shift is likely to change the entire scope of world demand, as well as the direction of supply flows. Finally, natural gas is becoming increasingly important as an energy

10 "The Benefits of Liberalising Product Markets and Reducing Barriers to International Trade and Investment: The Case of the United States and the European Union" (OECD Economics Department Working Paper No. 432, May 2005).

11 See *Energy Technology Perspectives: Scenarios and Strategies to 2050*, International Energy Agency (Paris), 2006.

12 Financial Times, March 12, 2007, and IEA, *World Energy Outlook 2006.*

13 International Energy Agency, *World Energy Outlook 2006*.

source. Global gas demand is expected to rise from 2.8 trillion cubic meters in 2005 to 3.2 tcm by 2010, a steady rise of 2.4 percent per year and 14 percent overall. The OECD countries will rely on imports to meet 30 percent of their demand in 2010. Until recently, gas supplies were considered fairly stable, since they were restricted to pipelines. But the recent interruption of pipeline deliveries by Russia has made the supply seem more vulnerable, even as liquefied natural gas (LNG) delivered by tankers is expected to make up 40 percent of the growth in global supply over the next five years, adding an element of flexibility to the market.[14]

Despite the increasing complexity and volatility of the global energy market, there are few mechanisms available to the international community to moderate swings in supply and demand, or even to ensure that the market is reasonably open and transparent. The institution that comes closest to trying to provide information and transparency in the global energy market — the International Energy Agency (IEA) — is not, with its current limited scope and membership, fully capable of meeting this challenge. Created under the auspices of the OECD in the wake of the 1973 oil crisis, the IEA is intended to facilitate cooperation among its members in the case of a major disruption in the supply of oil, with the aim of preventing any one member from suffering severe shortages. Although its emergency facility has been activated a few times, including during the 1991 Gulf war and in the aftermath of the 2005 Gulf of Mexico hurricanes, it has not yet been forced to respond to a major disruption of global oil markets on the order of 1973. It has, however, succeeded in creating a climate of information sharing and greater transparency among its members, as well as encouraging the development of stockpiles and other backup measures.

But the IEA has several obvious shortcomings for dealing with the evolving global energy market. First, its membership is limited to OECD members and has therefore been primarily oriented towards the energy concerns of industrial countries, most of whom are net importers of oil and natural gas. Outreach to non-IEA producers has been limited, and has not particularly involved the larger NOCs that are emerging as such powerful players in the energy market. Even as a consumer organization, however, the IEA is no longer representative, since neither China nor India are members (neither is a member of the OECD). The IEA has initiated dialogues with both, but if a supply crisis were to erupt in the next few years, it is unlikely that China or India could be well integrated into the IEA's response. Finally, although the IEA has done significant research work on other energy sources, including natural gas, its mandate for policy is still largely constrained to oil.

It is time to develop a more ambitious approach, one that integrates energy concerns into a new architecture for the governance of the broader global economy. This effort must encompass not only the security of energy supplies, but the development of the global energy market and the role of new technologies. A call for strengthened governance in the energy sector does not mean more rules and regulations; on the contrary, effective governance can do much to improve the functioning of the energy market by providing more information on supply and demand, promoting coordination, and ensuring alternatives in the face of shortages. Within its limited mandate, the IEA has done just that among the OECD countries as relates to the oil market. It is now time to go further:

14 International Energy Agency, *Natural Gas Market Review* (Paris) 2006.

- **The IEA should become the primary institution for global energy governance, developing special partnerships with China, India, and other non-OECD consumers, with a clear timetable for membership.** Its focus will continue to be on facilitating adequate supplies of the major fuels, including both oil and natural gas. Its expanded membership should not be universal, as too many diverse interests would lead to stalemate and inaction. But it should bring together the major net energy consumers, including China and India in partnerships aimed at developing better information sharing and transparency, as well as constructing a dialogue among all consumers on issues such as strategic reserves, market access, and energy efficiency. This dialogue will also encourage major new consumers to work with the market rather than buying up resources to the exclusion of others. Currently, the IEA has an active dialogue with China and more limited interaction with India, but in both cases, these dialogues are primarily about sharing "best practices" in terms of the energy sector and crisis management. Nor is it yet clear that either China or India would want to join the IEA, but as their capability for international cooperation on energy issues grows, and as they both become more exposed to the vagaries of the international market, they should come to see such involvement as in their own best interests, and should be invited to join. The United States and European Union will be central to fostering this transition. As influential members of the IEA, their agreement and enthusiasm will be essential as the agency expands its mandate and membership.

- **The IEA should engage in a more extensive dialogue with the producer states, with a special emphasis on reaching out to the largest producers,** such as Saudi Arabia and Russia, whose supplies can make a real difference during a crisis. The IEA has established a dialogue with OPEC, but it has not gone very far, and in some cases, it may be best to address suppliers individually rather than as a group. Given the increasing prominence of state-owned oil companies, the IEA should make a special effort to reach out to this group. This dialogue should not be a negotiation over price, but instead should focus on the value of transparency and reinvestment in infrastructure. Through such dialogue, an enhanced IEA should work to make clear that both consumers and suppliers have a shared interest in a stable energy market.

- **The enhanced IEA should be given a mandate to facilitate cooperation over natural gas supplies in case of emergency.** In the past, the gas market was dominated by direct contracts between suppliers and consumers, and pipelines ensured that there was no fungibility in the market. Thus, there was no way to shift supply and no role for an institution such as the IEA. But, the interruption of gas supplies to Ukraine by Russia in early 2006 did affect supplies in other countries farther down the pipeline. At the very least, the IEA can encourage the development of appropriate infrastructure, including adequate storage of natural gas and the coordination of pipeline construction to reduce the likelihood of disruptions. The growth of liquefied natural gas shipped in tankers, will increase the fungibility in the market and make it possible for the IEA to facilitate transfers of supplies in cases of future interruptions. Overtime, an enhanced IEA should establish greater transparency on gas supplies with the aim of ensuring more security of supply. The IEA should strongly encourage member states to develop transparent inventories of gas reserves, as they have done with crude oil.

Strengthening the WTO

In the last half of the 20th century, one of the most ambitious elements of international economic governance was the launching of multilateral trade rounds. Eight rounds were held under the GATT. The final GATT negotiation was the Uruguay Round, which lasted from 1986-1994. In 1995, the GATT was succeeded by the World Trade Organization (WTO), which took a major step forward by creating a binding dispute resolution process. Although difficult and often arcane to the outsider, those rounds did succeed in significantly reducing tariffs and quotas on non-agricultural goods, to the point that other barriers, especially regulatory measures, have become much more significant among the major economies today. To many observers, these rounds were the most visible symbol of the commitment of the major powers to open trade. The United States and Europe were the undeniable leaders, whose bilateral agreements were often the foundation for the multilateral accord.

The Doha Development Round — the first under WTO auspices — began in November 2001 with a mandate to negotiate a wide range of trade-related issues, including agriculture and services, and with a special emphasis on helping developing nations to achieve market access to the economies of wealthy countries. Almost immediately, disagreements broke out about the scope of the Round, and in 2004, proposals to add the so-called "Singapore issues" (investment, competition, government procurement, and trade facilitation) were rejected, with only trade facilitation added to the Round. The Doha Round continued to struggle, as developing countries refused to lower barriers to market access as long as Europe and the United States would not agree to limit subsidies on agricultural exports and production and tariffs on imports. For much of its existence, the difficulties encountered in the Doha Round, including the failure of the U.S. and EU to reach any significant agreement among themselves, symbolized what is wrong with global economic governance.

Whatever the final agreement reached in the Doha Round, the WTO must be preserved and strengthened as a major institution in the management of the global economy. As a first step in that direction, the United States and the EU must take the steps required to ensure that the final accord becomes law. The U.S. government must secure any necessary extension of Trade Promotion Authority; certainly the failure of the U.S. administration to secure passage of a Doha accord will send a powerful and unwelcome signal about the U.S. commitment to international governance on trade issues. Similarly, the ability of the European Union to bring its member states together to support a Doha agreement would be a strong indication of the EU's willingness and capacity to be a partner in developing an open global market place.

The WTO also faces the challenge of updating its internal procedures and structures. Many groups and scholars have already made numerous suggestions for reforms in this area. These should be given careful consideration, with an emphasis on making the WTO more transparent to the interested public and other concerned groups, as well as reducing the capability of members to use the consensus principle to bring everything to a halt.[15]

[15] For a thorough discussion of these issues, see Peter Sutherland, et al, *The Future of the WTO: Addressing Institutional Challenges in the New Millennium* (Geneva: World Trade Organization) 2004.

In addition to supporting the conclusion of the Doha Round and efforts to make the WTO more efficient, the United States and the European Union can take steps in two other areas to strengthen the WTO as part of renewed global economic governance.

- ❖ The United States and the EU should lead an effort to examine the increasing number of bilateral and regional trade accords to ensure that they are compatible with WTO requirements, including that they cover substantially all trade between the parties. Washington and Brussels have played a major role in this development, and it is contingent upon them to ensure that these agreements do not erode the authority and rules of the WTO. A multilateral expert-level commission should examine these agreements — including those concluded by the EU and the United States — for inconsistencies and conflicts, and should develop effective guidelines and procedures for ensuring that any future accords are also WTO-compatible.

- ❖ The United States and the European Union should recognize the WTO dispute resolution process as a significant accomplishment and work to strengthen it further. A major advance over GATT procedures, the WTO dispute settlement understanding eliminated the prospect that a member involved in a dispute could block the creation of a panel or adoption of a final report and thus prevent a judgment from being reached. By providing an effective compliance mechanism, the WTO reinforced the rules-based nature of the international trading system. This in turn allowed countries and corporations to operate in the global market with some sense of predictability. Since its establishment, the dispute settlement process has developed into one of the most effective international tribunals, with a considerable record of jurisprudence. Countries of all sorts and sizes, including smaller developing nations, turn to the dispute settlement body to adjudicate disagreements on the wide range of issues covered in GATT and WTO texts. Even though a finding against a country can require rewriting national regulations and law, compliance is high. In 2004, the United States was forced to rewrite its corporate tax code in part because of a finding that its system of foreign sales taxation was improper. The dispute resolution process has been so successful that regional trade agreements, including some in Africa, intend to establish their own procedures modeled on the WTO. For corporations, predictability and credibility in enforcement is invaluable, and an effective dispute resolution procedure — often defined as one emulating the WTO system — is essential.

Thus, in seeking to strengthen the WTO as a major element in global economic governance, the United States and the EU should resist any temptation to weaken the largely neutral, third party adjudication that is at the heart of the dispute resolution process, and should remember that they have derived much benefit from frequent use of that process. In particular, they should take specific steps to strengthen that process:

1) *Dispute resolution should be made even more transparent, in order to reduce suspicions and familiarize governments, corporations, and NGOs with its procedures and jurisprudence.* Hearings at both the panel and appellate level should be open to public scrutiny and briefs should be published. To give all interested parties a stake in the outcome — and to ensure that all arguments are heard — a*micus* briefs, which are now allowed for panels, should also be permitted at the appellate level.

2) *Additional assistance should be provided to developing countries to improve their capacity to enforce trade agreements and use the dispute resolution process.* Some countries currently avoid binding trade agreements for fear that they lack the capacity to enforce such accords but will still be liable if someone brings a dispute case. Some technical assistance has already increased the participation of developing countries in the dispute resolution process; this should be increased and reinforced.

3) *The WTO should reach out to the governing bodies of other trade agreements to provide advice and assistance in setting up dispute resolution bodies.* There are now more than 200 regional trade agreements registered with the WTO, including NAFTA, MERCOSUR, ASEAN, and the Common Market of Eastern and Southern Africa, a number of which have dispute resolution processes. These should not be brought under the WTO umbrella, but clearly inconsistencies in processes and quality will only complicate the international trading system. These efforts should reinforce each other rather than be competitive.

Enhancing Transatlantic and Global Markets

Just as the United States and the European Union must take the initiative to reshape the architecture of global economic governance, they must also lead in developing a new approach to reducing the remaining barriers to trade and investment, with the eventual goal of creating a global market. For the past sixty years, multilateral trade negotiations (MTNs) conducted under the GATT and the WTO have been the centerpiece of that effort. But the travails of the Doha Development Round have provided a clear demonstration that the era of the traditional MTN as the only vehicle for making substantial progress towards liberalizing global commerce is past. Not only have the negotiations been extraordinarily difficult, but the Round no longer addresses the most significant barriers to trade. Given the speedy rise of new industries and pressures of globalization, waiting six or seven years for multilateral negotiations to establish the rules needed for open commerce is no longer feasible. In a significant paradigm shift, there are few expectations that the Doha Round — no matter its eventual outcome — will be followed by another similar Round anytime in the near future.

It is time for the United States and the European Union to exert leadership by showing a new way forward. As a first step toward a more open global market, they should negotiate a series of agreements aimed at creating a barrier-free "Enhanced Transatlantic Market." This would be comprised of three elements:

- Creation of a barrier-free transatlantic investment zone.
- Reduction of regulatory obstacles, including through mutual recognition when appropriate; and
- Liberalization of market access for developing countries;

Beyond this inner circle of transatlantic agreements, the United States and the European Union should, after the Doha Round, initiate a broader effort involving other willing WTO members to remove barriers to trade in the wider global arena. This would involve:

- ❖ Elimination of barriers on trade in goods and services within ten years;
- ❖ Liberalization of market access in specific sectors; and
- ❖ Reduction of barriers across sectors on subjects not currently on the Doha agenda.

The need for a new, intensified transatlantic economic accord has been noted by many groups. The Transatlantic Business Dialogue, the Transatlantic Policy Network, American Chamber of Commerce (EU), the Confederation of European Business, and the European-American Business Council have stressed the importance of reducing regulatory barriers and negotiating compatible standards for products ranging from biofuels to electronic medical records.[16] German Chancellor Angela Merkel, while serving in the EU presidency, has proposed a New Transatlantic Economic Partnership aimed at reducing regulatory obstacles in key economic sectors, including industrial products, energy, intellectual property, financial markets, and emerging technologies. A framework agreement intended to launch negotiations toward that end may be concluded at the U.S.-EU summit in Washington on April 30.

Given that, after Doha, the traditional MTN is unlikely to be a viable means of reducing trade barriers, the United States and European Union must also find a new way to move forward in further liberalizing the world economy. Some will argue that this is an extreme view; that further opening of the global market is best pursued through MTNs and that the difficulties encountered in the Doha Round were no more severe than in previous rounds. The Uruguay Round broke down temporarily at the 1988 Montreal meeting, for example, and took longer than any previous round to reach its conclusion. But the sheer number of participants in the Doha Round (almost 150 compared to 86 at the start of the Uruguay Round, although 123 did finish Uruguay) has made everything much more complicated, especially as not all new members seem to view themselves as real stakeholders in an open global economy. Earlier rounds had also reduced tariffs and quotas in sectors where it was relatively easy, leaving the most difficult and politically sensitive areas for this negotiation. Moreover, the pace of change in the current global economy makes lengthy "all or nothing" negotiations requiring a consensus of all WTO members an anachronism.

In calling for this paradigm shift from global trade rounds to more flexible negotiating formats, the United States and the European Union must be careful not to damage the WTO and the significant gains it has already achieved. As leaders in the global economy, Washington and Brussels must make sure that their actions reinforce — not undercut — the credibility of the WTO. A successful conclusion to the Doha Round would be of real benefit to everyone, and the United States and EU should continue to work diligently toward that end. Regardless of the outcome of Doha, however, the U.S. and European governments should work to reinforce the importance of the WTO as an institution.

16 See, for example: Transatlantic Business Dialogue, "Establishing the Barrier-Free Transatlantic Market: Recommendations to the 2007 U.S.-EU Summit Leaders" (March 2007); American Chamber of Commerce to the European Union, "Position Paper on Transatlantic Economic Relations" (February 2007); Confederation of European Business, BusinessEurope "Position Paper on a Transatlantic Framework Agreement" (March 2007); Transatlantic Policy Network, "Completing the Transatlantic Market" (February 2007); EABC, "Letter to Commissioner Barroso, Chancellor Merkel, President Bush on U.S.-EU Summit" (March 2007).

To that end, it is time for the United States and the European Union to exert leadership by showing a new way forward, one that will make the WTO innovative and more relevant in the current global economy. They should move immediately to begin reducing regulatory barriers and investment obstacles between themselves. After the conclusion of the Doha Round, they should reach out to other like-minded WTO members and take the lead in initiating a set of negotiating efforts that will allow those committed to further liberalization to do so within the WTO context. In a form of "variable geometry," different members are likely to be involved in each effort, depending on their interests and capacities, yet in the end, all will benefit from reduced barriers that should result. The resulting accords should be fully compatible with the WTO, and buttress the position of that institution as the primary institution governing world trade.

Creating an Enhanced Transatlantic Market

As a first step toward a more open global market, they should negotiate an inner core of agreements aimed at creating a barrier-free "Enhanced Transatlantic Market." This will reinforce the strength and interdependence of the existing transatlantic economy, but also provide benefits for developing economies. To that end:

- The United States and the European Union should liberalize their trade preferences for developing countries with the goal of achieving a single set of rules that assures the greatest degree of market access for those countries. In order to overcome the inevitable suspicions that this would be a developed country pact against the developing world, Washington and Brussels should, from the beginning, take steps to ensure that the developing countries benefit from this arrangement. Currently, both the United States and EU offer preferential market access to most developing countries. The conditions under which this access is granted vary considerably, with the United States and the EU having different requirements for rules-of-origin, labor standards, and other issues. Despite the difficulties of achieving parallel liberalizations of such complicated and distinctive conditions, the priority should be to demonstrate that the United States and EU are serious about liberalizing trade with the developing world. The eventual target should be to reach the normal preference of zero tariffs, applied on an MFN basis. An arrangement of this sort is likely to provide developing countries with better results in terms of economic development than the agreement now likely to emerge from the Doha Development Round.

- The United States and the European Union should launch negotiations for a Framework Regulatory accord, including guidelines for the process of setting regulations, and a series of specific sectoral agreements. In the transatlantic market, barriers to trade in goods and services increasingly come not from quotas and tariffs, but from regulations and standards. Such regulations not only affect the import and export of many goods, but also the conditions under which companies operate, from health and safety regulations to accounting practices and competition policy. Having a consistent regulatory framework based on a set of established, non-arbitrary principles is essential for corporations and others active in the global marketplace, especially in a market as closely integrated as that between the United States and the EU. Removing regulatory obstacles would also bring a concrete economic gain: the OECD has estimated that reductions in regulatory barriers could lead to GDP gains per capita of 3 – 3.5 percent in the European Union and the United States.[17]

Reducing regulatory barriers has been the focus of initiatives at the last few U.S.-EU summits, but with little success to date. As the 2007 U.S.-EU summit approaches, many transatlantic business groups and others have offered encouragement and specific recommendations to advance the regulatory agenda. The European Parliament has addressed this topic, and a 2006 U.S. Senate resolution also stressed the importance of transatlantic regulatory issues.[18] Chancellor Merkel's initiative has given this issue the high-level profile it has lacked in the past, and that many now see as crucial to its success.

A regulatory accord will be a key element in creating a barrier-free "Enhanced Transatlantic Market." In sorting through the various proposals now on the table, policymakers will have to find some way to advance, despite the immense variety of regulations and the many different constituencies involved. These include not only the business community and consumers, but also many diverse government agencies, both on the state and federal level in the United States and on the European and national level in the EU. In moving forward, the United States and the EU should:

1) *Develop guidelines for the process of establishing regulations.* These should include such commitments as advance notice to transatlantic stakeholders; completion of a transatlantic "impact statement;" decisions based on cost-benefit analyses and scientific evaluations; as well as others.

2) *Identify a few high-profile areas for early agreements, as a way of demonstrating success fairly quickly.* The energy and environmental sector might be especially appropriate, given the growing importance of new technologies (which may have fewer entrenched constituencies) and the political impetus toward transatlantic cooperation on such technologies. New fields, such as nanotechnology, that do not yet have a regulatory regime would also be appropriate.

3) *Agree to rely on mutual recognition of standards and regulations as the usual practice.* Harmonization of standards and regulations has proven to be an immensely laborious process that easily bogs down in details. While U.S. regulatory authorities might balk at accepting the national regulations of all EU member states (just as EU authorities might find dealing with state-level regulations difficult), they should be able to accept standards and regulations written at the EU and U.S. federal level sufficient, whether it is product safety standards or regulations on corporate governance.

4) *Encourage developing countries to sign on to these regulatory agreements by offering investments and technical assistance targeted at boosting the capacity to implement new regulatory procedures and standards.* This might also include a fixed period when implementation could be deferred while the necessary technology and expertise is developed.

[17] See "The Benefits of Liberalizing Product Markets and Reducing Barriers to International Trade and Investment: The Case of the United States and the European Union," OECD Economics Department Working Paper No. 432, May 2005.

[18] See U.S. Senate Resolution 632 (sponsored by Senator Robert Bennett, R.-Utah) December 9, 2006; Erika Mann, rapporteur, EU-US Transatlantic Economic Relations (European Parliament A6-0131/2006).

An overall U.S.-EU regulatory agreement will be enormously complicated and take several years to complete. By laying the groundwork with an accord on the regulatory process, a few high-profile agreements, and a presumption in favor of mutual recognition, the United States and the European Union might finally make progress in this area. Providing targeted assistance to developing countries would make such an accord more broadly acceptable.

- **The United States and the European Union should establish a barrier-free Transatlantic Investment Market.** In recent years, investment has overtaken trade as the major share of economic transactions in the transatlantic economy. In the first half of 2006, European foreign direct investment moving into the United States totaled $61 billion, and the reciprocal U.S. flows to Europe came to $51 billion; in contrast, U.S. investment in China in all of 2005 totaled $1.6 billion.[19] Europe currently accounts for 61.5 percent of all foreign direct investment in the United States.[20] According to the WTO, about one-third of trade is actually comprised of intra-company transactions across national borders — the shipment of parts from one factory to another as a car is manufactured, for example — and so reflects a company's earlier decisions about where to invest and build facilities. In a very real way, trade now follows investment across the Atlantic.

Despite the growing importance of investment, there has been little effort by the international community to establish any serious rules to govern foreign investment. One previous effort, Multilateral Agreement on Investment (MAI), foundered in 1998 for a number of reasons, including the failure of the United States and Europe to reach agreement, the failure to look beyond OECD members, and the objections of the environmental community. Efforts were made to introduce investment into the Doha Round, but these were rejected except for those elements dealing specifically with trade in services.

As a first step to encouraging a more open investment climate globally, the United States and the European Union should take the lead to develop a transatlantic barrier-free investment market that would encourage an open environment for the vast majority of productive investments. The accord could be roughly modeled on the current bilateral investment treaties, with a dispute resolution process that would allow foreign investors and host governments to address their differences. The accord should also establish minimal standards for corporate governance and transparency designed to ensure that the host country has reasonable confidence in the identity and management of the investing company. Companies would not be forced to follow identical corporate governance guidelines, but certain minimal requirements should be met. Once such an accord was in place, foreign investors should be able to invest in all sectors of the economy (the few necessary exceptions for national security reasons are discussed below). In the transatlantic market, barriers to foreign ownership in aviation, shipping, and telecommunications should disappear. An investment accord would also allow the United States and the EU to build on the understanding they have achieved on competition policy and develop a more common approach to mergers and acquisitions.

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19 *The Transatlantic Economy 2006*, by Daniel S. Hamilton and Joseph P. Quinlan (Washington DC: Center for Transatlantic Relations) 2007.

20 Bureau of Economic Affairs, U.S. Department of Commerce

Because of the levels of mutual investment across the Atlantic, the United States and the EU have the most to gain by initiating such an effort. But no one will benefit if that agreement is seen as aimed at keeping developing country firms from investing in the United States and Europe. Washington and Brussels should engage in consultations with representatives from key emerging economies — especially those with major firms now seeking to invest abroad, such as China and Russia. They should make clear that if firms meet the minimal standards of corporate governance and transparency, and if these governments can provide reciprocal levels of openness in their own economies, they will be welcomed into the investment accord. To ease the accession process, the United States, the EU, and other developed countries should provide technical assistance to those who wish to accede but who lack the capacity to implement such an investment accord.

This investment accord must also overcome the experience of the ill-fated MAI. That accord stumbled for a whole range of issues, but among the most important was the inaccurate perception that it would allow corporations from the richest countries to exploit developing countries economically and environmentally, and preclude national or local environmental protection. Thus, representatives of relevant non-governmental organizations — who did much to derail the MAI — should be brought into early discussions, and additional measures should be considered to make the negotiations as transparent as possible to other interested publics.

Finally, among the most serious threats facing international investment today is the proliferation of efforts to limit foreign investment for national security concerns. The United States, France, Germany, Russia, China, and others have all initiated reviews of their foreign investment legislation with the ostensible ambition of safeguarding sensitive facilities such as ports and key production factories.[21] While caution is certainly warranted in an age of terrorism, national security reservations should not be used simply to protect domestic companies in the face of foreign investment. Indeed, there should be some presumption of innocence for the investor. Thus, this transatlantic investment agreement should establish guidelines for a fair and predictable national security review process. This should include:

1) *An emphasis on minimum standards of corporate governance and transparency for investors, rather than on limiting investment by state-owned companies.* Such restrictions are often intended to preclude investment by foreign governments that are viewed as less than friendly. In the United States, however, the high level of transatlantic investment means that such restrictions disproportionately affect European firms, many of which have some state participation in ownership. Indeed, the sheer variety of state ownership structures, and their different implications, makes even defining "state-owned" firms immensely complex. In the end, governments must have confidence that they can judge the intent of a proposed foreign investor, and this can be done through mechanisms other than restricting investment by state-owned firms.

2) *An agreed and narrow definition of "critical infrastructure," along with an understanding that foreign investment restrictions would only apply to such facilities, rather than entire sectors of the economy.* While some would argue that certain facilities, such as nuclear power plants or key transportation hubs, should be controlled by national companies, foreign ownership should not be automatically

[21] For a discussion of U.S. policy in this area, see *U.S. National Security and Foreign Direct Investment*, by Edward M. Graham and David M. Marchick (Washington DC: Institute for International Economics) 2006.

barred. In the case of sensitive assets, companies — whether foreign or national — should be vetted through an appropriate mechanism and judged capable of running the facility and maintaining its security. Restricting ownership throughout an entire industry, such as airlines or shipping, for example, does little to provide security, and is contrary to the reality of the global economy today. While a proposed investment in agreed "critical infrastructure" might trigger a closer review, it should not require that foreign investors be prohibited.

3) *A timely review that is both transparent and accountable, in a manner that protects legitimate proprietary information.* The timeframe for the review should be predictable so that investors can make informed decisions, but there should also be latitude for determining that particular investments (in critical infrastructure, for example) might require additional review.

Opening the Global Market

In addition to creating an Enhanced Transatlantic Market, the United States and the European Union should lead a much broader effort to remove trade barriers in the global economy by engaging like-minded countries to negotiate sectoral and other accords in a WTO context. After the conclusion of the Doha Round, they should seek innovative ways to reinvigorate the process of removing barriers and address obstacles not currently on the WTO agenda. The United States and the EU must initiate this effort because no one else is likely to step forward to cut the current Gordian knot. But they must make clear from the beginning that this is not an exclusive endeavor, and instead recruit others to participate from the outset, so that the result will be a barrier-free marketplace between willing WTO members. Not all WTO members will participate; instead, each negotiation will involve those most interested in moving ahead. This will be difficult, but it will be less difficult than gaining consensus among all WTO members, as is required in a traditional round. It is therefore the most viable option for pursuing greater liberalization in the world economy today. To reinforce the position of the WTO, these new agreements should be fully WTO-compatible and rely on the WTO dispute resolution process. As examples of the type of agreement that might be reached through this method:

❖ **The United States and the European Union should lead an effort with like-minded WTO members to eliminate barriers to trade in goods and services over the next ten years.** This effort would engage those WTO members committed to further liberalization across a range of goods and services. It would address many of the same issues as traditional trade rounds, with the ambition of eliminating industrial tariffs and obstacles to trade in services and extending those benefits on an MFN basis. Parts of agricultural trade could also be included if desired by the participating countries. To encourage the major developing countries to participate and undertake reciprocal obligations — thus overcoming the "free rider" problem — the focus of liberalization would be on those goods and services of importance to countries engaged in the process. Products crucial to the economies of major non-participants may be exempt from this process and thus would not benefit from lower barriers; such exemptions could be lifted as enough major players engage. To encourage participation by developing countries, targeted technical and financial assistance could be provided to help them develop the capacity to participate in these negotiations and effectively implement the resulting accord.

- **The United States and the European Union should recruit other interested WTO members to negotiate agreements to liberalize market access in specific sectors, especially those dominated by new technologies, like nanotechnology.** Because of the speed of technological developments, these sectors are especially poorly suited for relying on multilateral trade rounds to remove market access barriers. The emergence of new industries — such as biomedical, "green" energy, nanotechnology — usually leads to new areas of regulatory policy and sometimes other market access restrictions that complicate transatlantic economic interaction. Instead, the United States and the European Union should take the lead, recruiting interested governments to negotiate specific sectoral accords addressing relevant border barriers and regulatory obstacles. This effort should not be restricted to those industries dominated by emerging technologies, but those areas may provide the most opportunities for relatively quick agreements that will give this effort some important early successes. This model could also apply to other areas where trade liberalization would make a positive contribution to achieving other international goals, such as elimination of barriers to trade in energy- and emission-reducing technologies.

  From the outset, these agreements should be designed to include all willing WTO members who find such an agreement relevant, and MFN rules would apply; that is, participating states would apply any reductions in border barriers to all WTO members. Not every WTO member will want to join every sectoral-specific accord, but they should have the right to join each one as they develop the capacity to implement the arrangements. The agreement on Trade in Information Technology Products (ITA) could serve as a potential model. That agreement established a Committee of Participants and other WTO members could join if they agreed to the provisions of the ITA. Similarly, the 1998 WTO Protocol on Telecommunications did not involve all WTO members.

- **The United States and the European Union should work with like-minded WTO members to reduce barriers in areas that extend across sectors.** This effort should particularly address those issues not currently on the Doha agenda, such as competition policy and government procurement. Just as with the sectoral accords, the United States and the EU should seek out those governments who wish to go beyond the elimination of border barriers to address the other obstacles to global commerce.

Managing a Global Energy Market

Even if the enhanced International Energy Agency recommended in this report is able to provide some governance within the global energy market, the United States and the European Union will still have a significant role in reinforcing the IEA and dealing with other threats to energy supplies. Their leadership will be especially valuable in three areas. First, changes in the energy market, especially the increasing dominance of the NOCs, threatens to reduce transparency and standards of corporate governance in the global energy market. While there may be little that can be done to encourage state-owned companies to be transparent, the United States and the EU could take the lead to ensure that any assets acquired in the west meet the full transparency and reporting requirements expected of any private sector firm. Second, energy supplies are now at risk because much of the world's oil and gas is produced in regions that can best be described as unstable politically, and in some cases in countries at risk of total failure of governance. The Gulf of Guinea region in Africa is expected to become a major supplier to both Europe and the United States during the next twenty years. If Nigeria, for example, were to become a "failed state," those energy supplies could be lost for a considerable time. As it is, over the last two years as much as 25 percent of Nigeria's production has been shut-in by domestic conflict. Finally, the environmental consequences of energy use — including climate change — must also be taken into account as governments respond to their energy needs. Simply burning more coal may be the most immediate apparent answer — and today China is bringing coal plants on line at the rate of one every week — but it is not sustainable. All governments will have an interest in developing alternative fuels and other technologies that provide cleaner, more efficient production and use of energy.

If the United States and EU are to lead on these issues, however, they must first build their own credibility. The United States must convince others that it is serious about mending its profligate ways in terms of energy usage and carbon emissions. This does not mean that it must join the Kyoto accord, but there must be some concrete steps — a national cap-and-trade system linked to a global trading system or a carbon tax — that will demonstrate U.S. seriousness in reducing its own consumption and in working with others to reconcile global energy needs with the environmental consequences. As for the European Union, it must develop a single energy market; only as one market, rather than twenty-seven small ones, will it have the stature to influence others. The EU must also develop a genuinely common energy policy. There have been some proposals in this direction, and Europe has recently agreed to overall targets on carbon emissions and use of renewable energy. But it is not clear how those targets will be achieved, and on much else, such as the application of competition policy to energy companies, Europe today is far from united.

As the United States and European Union move forward with their own energy agendas, they must work together and with others to further stabilize the global energy market. In particular:

- ❖ The United States and EU should reinforce market mechanisms in the energy sector, with an emphasis on transparency and governance standards for companies, including those with state-ownership. This could draw on the similar effort required as part of a barrier-free investment market, which would include standards for corporate governance and transparency. In reality, the United States and the EU will have only limited leverage over the NOCs, but in some cases the U.S. and European governments may be able to encourage greater transparency, especially when NOCs seek to purchase assets in the United States and Europe. Reciprocity should be sought with those, like Russia, that seek to invest in western energy companies and infrastructure. They must abide by established standards of corporate governance and open their own markets to competition, as should those who turn to western capital markets to raise funds and establish valuations.

- ❖ The United States and the EU should develop a more united policy toward Russia and its energy companies. This policy should be grounded on an understanding that the use of oil and gas for political reasons is unacceptable behavior, and that Russian corporations must adhere to the same minimal standards of transparency and governance if they wish to invest in the west. But there should also be an understanding that Russia would have full access to invest in western energy assets if it allows similar access to western investors in its energy assets, as well as access to its pipelines. Both the United States and Russia should ratify the Energy Charter, which seeks to promote transparency and rule of law in the energy market.[22]

❖ **The United States and Europe should identify mechanisms for joint action in protecting energy supplies and related critical infrastructure.** The U.S.-EU dialogue has already addressed issues of port and container security, and these discussions could be expanded to establish guidelines and "best practices" for protection of critical domestic energy infrastructure, as well as corporate plants, including production facilities, of U.S. and European companies located far afield. Security guidelines and "best practices" could usefully be extended to energy-producing countries. In case of security emergencies, including terrorist attacks, the first line of defense will undoubtedly be national. However, NATO may have a useful role to play in some situations. The Alliance is already running a maritime surveillance operation in the Mediterranean against terrorists, and this could also be expanded into other regions where the threat to tankers or shipping lanes would make it useful. NATO has a very successful track record in training military forces, and this may be useful in helping some governments who need more professional protection of their energy facilities. These Alliance efforts should be coordinated with national and EU efforts, and there should be ample outreach to others, such as China, that have a real stake in the security of energy supplies.

❖ **The United States and the EU should launch a new, jointly funded effort to develop future energy technologies that will both improve efficiency and reduce global warming as part of the development of a new, post-Kyoto international consensus.** Representatives from the major emerging energy consumers, including China and India, should also be involved and the project should actively explore innovations that are relevant to their populations and economies, as well as those in the United States and Europe. The project might be modeled on the lines of CERN (formerly the Conseil Européen pour la Recherche Nucléaire, an international particle physics laboratory) or the international space station, but most importantly, it should reach beyond large energy corporations and seek out innovative firms that may not have the capacity to deal with a cumbersome proposal process. In identifying and developing these technologies, special attention should be given to those innovations which appear likely to be sustained by the market, rather than requiring long term subsidies. Such joint EU-U.S. cooperation on alternative energy and conservation projects would avoid duplication and permit the effective concentration of resources by each side on the most promising technologies. It would also encourage an appropriate division of labor in developing alternative approaches to certain technologies.

❖ **The United States and the EU should push the global community to establish an international nuclear fuel cycle bank in order to make nuclear energy available for civilian use without nuclear arms proliferation risks.** More and more countries will seek civilian

[22] Signed by 51 countries, including Russia, plus the EU, the Energy Charter seeks to promote reliable transit flows and non-discriminatory trade in the energy market, as well as protecting foreign investments and encouraging energy efficiency. For further information, see www.encharter.org.

nuclear energy as one part of the energy supply picture, both to diversify their sources and reduce greenhouse gas emissions. But if countries enrich uranium on their own soil, they will also have the capacity for creating weapons-grade material. The United States and the European Union should take the lead to avoid this problem by pushing for the establishment of a facility that could provide the necessary material for nuclear reactors around the world and bring spent material back under control. The program would be an advance from a proliferation perspective, but it would also be enormously useful in boosting transparency and trust in civilian nuclear energy programs. To make this inclusive, the physical facilities may have to be located in several different countries; if located properly this could also reduce the distance that fuels would have to travel, thus also reducing vulnerabilities. Such a fuel bank would be especially useful if more countries respond to the prospect of tighter energy supplies by increasing their nuclear power capacity.

The United States and the European Union now face a serious challenge — the international economic system from which they have prospered so much now hangs in the balance. If they do nothing, the global economy may well fracture — regional arrangements will divide the world into blocs, protectionism and economic nationalism will rise, and the governing institutions will fade into irrelevance. Only with stronger and broader leadership will that economy continue to be open and stable in the face of the pressures of globalization and economic nationalism. The United States and the EU must reach out to the other major and emerging powers, engaging them in the major institutions and sharing the responsibility for management. They must restructure the architecture of global economic governance, ensuring that the international economic institutions reflect the current distribution of economic power in the world. Together, the traditional and emerging leaders of the global economy must modernize the mandates of these institutions, delineating responsibilities while pushing for cooperation. The United States and the EU must also demonstrate how to continue liberalizing the international economy within the WTO context, despite the travails of the traditional multilateral trade rounds, which have now most likely reached their end. By creating a barrier-free "Enhanced Transatlantic Market" and working with like-minded WTO members to find innovative ways to reduce barriers more broadly, the U.S. and the EU can build a more open global economy. By taking steps to create a more open and transparent global energy market, they can reduce the threat of instability and destructive competition in a sector that is vital to everyone's economy.

Supplementary Opinion

I am pleased to join in the endorsement of the thrust of the report and most of its particular proposals.

The subject of the relationship between the International Monetary Fund and private financial markets, however, deserves greater specification. While observing that there is likely to be a need for the Fund in the future, the report could also be interpreted as suggesting that as private financial markets evolve, the role for the IMF diminishes. In my view, that relationship is complementary rather than substitutive. The modern raison d'être of the Fund arises largely from the fact that private financial markets are incomplete and suffer from imperfect information, herd behavior, and collective action problems. Financial crises, almost by definition, cannot be "managed through the market." The IMF has helped to ameliorate the impact of these problems on the global economy. If increases in the size and sophistication of financial markets improve information, reduce herd behavior, and solve collective action problems, the scope for useful work on the part of the IMF does diminish. However, it is far from clear that financial market innovation and expansion in recent years resolves these problems. Rather than weakening the case for the IMF, they are more likely to simply alter the character of the complementarity between the institution and private markets.

The extraordinary accumulation of foreign exchange reserves by some countries is a greater threat to the relevance of the Fund in some regions. This development should place the spotlight on the regional financial facilities through which such reserves could be deployed, such as the Chiang Mai Initiative, and the need to coordinate them with the IMF - as stated in the report. Here too, the IMF has an important role as partner of regional facilities and should have a role in setting rules for the design of such facilities. Moreover, many members of the Fund do not hold large amounts of reserves or benefit from regional financial arrangements, and will therefore need to resort to IMF resources from time to time.

The global economy needs the IMF for the foreseeable future, in sum, and its member governments should be guided by these considerations when reforming the institution.

Separately, the report advises that the G8 summits focus on political issues and less on economic issues, and would reserve the latter for the finance G7. In my view, the finance G7 should indeed lead on international financial matters and give direction to the international financial institutions in cooperation with the rest of their membership. However, finance ministers' domestic mandates limit the scope of cooperation that is possible in the G7. Cooperation on trade, development, energy and other economic matters requires the involvement of other ministers; some matters even within the financial portfolio, such as changes in fiscal policy, require review by heads of government. International bargains across issue areas are therefore best struck at the summit level. For these reasons, an economic role for the G8 summits, or a broader head-of-government level forum that might replace it, will be critical for addressing many international economic problems and for advancing several of the economic proposals in this report.

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About the Co-Chairs

Grant D. Aldonas, Scholl Chair in International Business, CSIS

Grant Aldonas holds the William M. Scholl Chair in International Business at CSIS. Previously, he had a distinguished career in law, business, and international economic policy, including service at senior levels in the U.S. government. Mr. Aldonas came to CSIS from Akin Gump Strauss Hauer & Feld, where his practiced focused on international trade, investment, corporate governance, and corporate social responsibility. While at Akin Gump, he served as chairman of the U.S. arm of Transparency International.

Before joining Akin Gump, he served in the Bush administration as the Commerce Department's under secretary for international trade from 2001 to 2005, where he was one of the president's principal advisers on international economic policy and managed a federal agency of 2,400 employees with offices in 80 countries and a budget of $350 million. In his role as under secretary, he also served as a member of the board of the Overseas Private Investment Corporation and as executive director of the President's Export Council. Prior to his service in the administration, Mr. Aldonas was chief international trade counsel to the Senate Finance Committee. During his tenure, Congress passed a number of significant trade bills, including the Trade and Development Act of 2000, Permanent Normal Trade Relations for China, legislation replacing the Foreign Sales Corporation provisions of the Internal Revenue Code, and a series of tariff bills. Before entering public service, Mr. Aldonas was a partner with the Washington, D.C., law firm of Miller & Chevalier where his practice focused on international trade, tax, government procurement, and international litigation. He also served as counsel to the Bipartisan Commission on Entitlement and Tax Reform and as an adviser to the Commission on U.S.-Pacific Trade and Investment. He was appointed chair of the American Bar Association's Task Force on Multilateral Investment Agreements and served as vice chair of the ABA Section of International Law and Practice's Committees on Trade and Foreign Investment.

Mr. Aldonas began his career as a Foreign Service officer, serving tours in Mexico, the Department of State, and the Office of the U.S. Trade Representative. He continues to serve as an adjunct professor of law and member of the board at the Georgetown University Law Center. He also continues his role as principal managing director of Split Rock International, a Washington, D.C.–based consulting and investment advisory firm, and as a member of the board of the Center for International Private Enterprise and the Global Fairness Initiative. Mr. Aldonas received his B.A. in international relations in 1975 and his J.D. in 1979 from the University of Minnesota.

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Stuart Eizenstat heads the international practice at Covington & Burling. His work at Covington focuses on resolving international trade problems and business disputes with the U.S. and foreign governments, and international business transactions and regulations on behalf of U.S. companies and others around the world. During a decade and a half of public service at senior levels of the U.S. government, Ambassador Eizenstat held a number of key positions and received the highest departmental awards for his service from Secretary of State Warren Christopher, Secretary of State Madeleine Albright, and Secretary of the Treasury Lawrence Summers.

During the Clinton administration, he had a prominent role in the development of key international initiatives, including the negotiations of the Transatlantic Agenda with the European Union (establishing what remains the framework for the U.S. relationship with the EU); the development of the Transatlantic Business Dialogue (TABD) among European and U.S. CEOs; the negotiation of agreements with the European Union regarding the Helms-Burton Act and the Iran-Libya Sanctions Act; the negotiation of the Japan Port Agreement with the Japanese government; and the negotiation of the Kyoto Protocol on global warming, where he led the US delegation.

Much of the interest in providing belated justice for victims of the Holocaust and other victims of Nazi tyranny during World War II was the result of his leadership of the Clinton administration as special representative of the president and secretary of state on Holocaust-Era Issues. He successfully negotiated major agreements with the Swiss, Germans, Austrians, and French, and other European countries, covering restitution of property, payment for slave and forced laborers, recovery of looted art, bank accounts, and payment of insurance policies.

Experts and Advisors

The following individuals graciously consulted with the Commission on Transatlantic Leadership in the Global Economy, either as individuals, or in specific meetings of the group, including a review workshop held in December 2006. They bear no responsibility for the conclusions and recommendations of the report, but their insights were very much appreciated.

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