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## TRANSCRIPT

### ADDRESS

**Saturday March 15, 2008**

**Moderator:** **Dan Drezner**; Associate Professor, Tufts University

**Speakers:** **Paul Atkins**, Commissioner, U.S. Securities and Exchange Commission; **James Quigley**, CEO, Deloitte Touche Tohmatsu  
**Ana Palacio**, Former Foreign Affairs Minister, Spain; **Dr. Andre Sapir**, Resident Scholar, Breugel; **Guenther Verheugen**, VP and Commissioner for Enterprise and Industry, European Commission

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KENNEDY: We're ready for the last session of the day, other than the Night Owl tonight. Be sure you save some energy to come back at 9:30 tonight for the Night Owls. It's really my pleasure to turn the podium and the mic over to Dan Drezner for "Who Will Write the Rules of Global Economy in the 21st Century." Dan?

DREZNER: Thank you very much, Craig. Bob Kimmitt at the end of the panel on Sovereign Wealth Funds talked about the need to have a panel about rewriting the global financial architecture. We actually have that panel here, fine group of participants.

Now, the last time an academic from the city of Boston said anything on the record from Europe, she had to resign from a presidential campaign, so I'm going to try to keep my words to an absolute minimum. But to frame the conversation, I think there are three different ways we can look at who writes the rules.

The first is the transatlantic community versus the so-called bricks, Brazil, Russia, India, and China. On the one hand, you could argue that the transatlantic community still rules the roost. More than 75 percent of outward foreign direct investment in the world is the United States and the European Union. More than 60 percent of inward FDI goes to the United States and the European Union.

On the other hand, you can also argue the moment has passed. The U.S. and the EU combined are now responsible for less than 40 percent of global economic output and for less than 30 percent of global exports.

Then we've got the question of public versus private actors. When we talk about writing the rules, there's an almost de facto assumption, perhaps in Europe, that we're talking about public actors. But, in fact, increasingly you're seeing private actors, in accounting and other areas that are also writing the rules.



Finally, we have the elite versus the mass public. For the people in this room, there's a belief that we need to write the rules to keep the global economy open, that globalization is a good thing. At the same time, if you take a look at public opinion polls, it's not clear that the publics in both Europe and the United States feel the same way. They're particularly nervous about the shift in economic power from the transatlantic community to countries like China.

The GMF transatlantic trends poll in 2007 showed that almost a majority of Americans a plurality of Europeans view China's growth as a threat more than an opportunity.

So, with that setting the stage, let's get to our very distinguished panelists: Paul Atkins, commissioner of the SEC. Let me start with a sort of simple question, which is: in a world where Bear Stearns needs to be bailed out, to what extent do rules matter? Theory, I assume, the rules were supposed to prevent something like this from happening. Is it important to even talk about global rules?

ATKINS: Great question, very deep question. Rules do matter, because—on two different levels. One is rules matter because they help, like traffic lights or anything else—they help to guide people's actions and business' actions. They also set boundaries of what's within acceptable limits of behavior and what's outside.

Also, especially if rules become skewed, and if they're not properly built from a look at costs versus benefits, rules cost people money and help to skew activity of companies, of investors, of entrepreneurs. So that's why, at least at the Securities and Exchange Commission in the United States, there's a big emphasis right now on looking at our rules from this perspective of cost versus benefit, and try to help make our rules much more in sync with human activity.

DREZNER: Now, in terms of writing the rules of the global economy, you can argue maybe there are two ways of going about. There's sort of a top-down approach, where you try to harmonize rules across different jurisdictions, or there's a more bottom up approach, where you allow for mutual recognition, which allows for more diversity, but not necessarily as much coordination.

You've been involved in the effort of the Transatlantic Economic Council (TEC) to try to get accounting rules in order. Do you have a preference, or do you think there's one better way than another?

ATKINS: The Transatlantic Economic Council is a great point of showing how things can work out properly. I'm happy to say that we at the Securities and Exchange Commission were able to achieve the first deliverable of the TEC, and that is the United States' recognition of international financial reporting standards, which was one of the prime objectives that Councilwoman Merkel and President Bush had set out.



As far as bottom up versus top down, I think the only real to achieve something, at least within the lifetime of everybody in this room, and the lifetime of my eight year old son as well, is to do a top-down approach, where we're looking at philosophy. We're looking at how the two jurisdictions are working to achieve common goals, and looking at the results, and then going toward mutual recognition.

If you do a bottom approach, or if you line up all of our regulations on one side, versus all of the other jurisdictions' regulation on the other side, see where they're alike, see where they're different, and then try to harmonize, and then have to maybe go to national legislature or something like that to get in sync; it will take forever. As soon as you go down that road, you will never achieve things, because it will be something like what we saw yesterday that will change the landscape.

DREZNER: Jim Quigley, good to see you, of Deloitte Touche. You're now heading up the TransAtlantic Business Dialogue. You've also seen up close the effort to try to coordinate accounting standards through the Transatlantic Economic Council. Do you think this is a possible template for writing other sets of global rules? Is this an exportable template?

QUIGLEY: I do think the model has the potential of being leverageable. What happened in this case was we had a private body, the International Accounting Standards Board, and they developed some standards that we have judged them to be a single set of high quality accounting standards that we would like to see globally accepted.

One of the real challenges that you have in an environment like that is I think who writes the rules? The answer to that is going to be the regulator writes the rules. Who are the regulators? Those are bodies that receive authority from some political body, some national body.

So in that world then, where the regulators will be national, but yet they're trying to write rules for a global market, which our global capital markets truly are, with global enterprises participating in them, how then are you going to get to that common framework?

As Commissioner Atkins just stated, this is a very unique partnership. We do have 100 countries that have said they're going to embrace this set of accounting standards. I do think that the model is scalable because in this case you have cooperation. You have mutual recognition coming, and I think a way, then, to try to begin to function with something that is truly global in a truly global market, which the capital markets are, even though regulated by a whole series of national regulators.

DREZNER: This raises an interesting question about going global. The TransAtlantic Business Dialogue consists of multinationals, obviously, from the United States and Europe. The multinationals now making the most waves are coming from different countries, China and India. Some are private and some are not so private.



To what extent do you see the TransAtlantic Business Dialogue becoming the global business dialogue?

QUIGLEY: I think the TransAtlantic Business Dialogue is a group of executives from both sides of the Atlantic working to try to influence the public policy agenda. I think it's too narrow if we say they're just simply looking at transatlantic, because there is an approach to also look at other nations, with respect to intellectual property rights protection, and our ability to then help, I think, this whole global nation move forward and improve the quality of life and have a framework for barrier free trade, that I believe will improve the quality of living and our ability for these economies to continue to expand.

DREZNER: Ana Palacio, you're a former foreign minister of Spain. You also have some experience with international financial institutions. We were talking before about a possible gap between perception and reality, in terms of who actually writes the rules of the global economy.

Practically, what do you think are the best venues for this, public agencies versus private arbitration?

PALACIO: I think, first of all, that we have to acknowledge that nowadays, perception is at least as important as reality, if not more important. We cannot forget that. Yesterday, in one of the discussions, we saw how it was difficult to make our public opinions understand the importance of the organization, as you have raised the issues as well.

I don't think there is a silver bullet or a unique formula. What we have to acknowledge nowadays is that the world is very complex. Gone are the days where a group of Europeans and Americans, behind closed doors, with thick cigars, and over thick carpets, could decide the fate of the world.

Now, we have private actors that are extremely active. We have public actors. And we have to cope with this complexity. Yes, there is this big area of public/private partnerships that goes from joint ventures to regulations, as we have seen. We have to accommodate their new models, and all institutions that are being adapted.

Arbitration, you have mentioned arbitration; this is a very interesting case, because arbitration was born to address private differences or private conflicts.

DREZNER: Commercial arbitration between private actors.

PALACIO: Yes, but the origin is commercial arbitration between two private parties. No public interest dimension. Nowadays, arbitration has gone. A couple of days, three days ago, there was an article in the *Financial Times*, arbitration has grown up. It has



gone to be one of the instruments to solve conflicts between a state and a private investor, a foreign private investor.

There, of course, you cannot ignore the public interest dimension, the role of public opinion. How can you explain to this public opinion that we'll equate arbitration to the jurisdiction, to what they know, the judges? It is very common in arbitration that you have a three member panel, that you find these three members in another case, one being counsel for one party, the other one being counsel to the other party. So one is being still an arbitrator.

It's all that—there is no jurisprudence. You have the cases in Argentina where the idea of state of necessity was interpreted by different arbitration panels in a very different way. We have to cope with this. So we have to adapt all the institutions and we have to address new institutions to cope with this private/public interactions that have nothing to do with the old models.

DREZNER: Vice President Günter Verheugen, this is clearly a call for the United States and the European Union to get together to potentially write the rules. Maybe this is a moment where the rules still can be written by the actors and then bringing China and Indian and other actors in.

Ana Palacio raises a valid question: to extent will writing these rules create a public backlash? Presumably, to write the rules, you want—Americans and Europeans are used to a democratic process. But regulatory standards are not usually written in a democratic way. To what extent will these kinds of rules provoke public backlash against globalization, against economic openness?

VERHEUGEN: To the contrary, in the contrary, I do not believe that it will create a backlash in public opinion. What we are doing here is to explain to our public that globalization is basically good for everybody in the United States and in the European Union. Of course, we need some rules in order to guarantee that competition is fair, is fair and equal.

This is what people rightly expect. Of course, rules are not written behind closed doors. Finally, it is always a process of realization, and has to be done in parliamentary institutions. That's exactly what happens.

What I see today is another danger. The danger that I see is the policymakers, in particular at national level, in the United States, in the European Union, even in the country I know best, react in the wrong way on the uncertainties and fears which people feel.

I think that a majority of our citizens see globalization as a threat, and not as a challenge. What I see today is that more and more policy makers in Europe and the U.S.



echo the very real popular mood, instead of giving clear guidance and leadership, and telling people why we have to compete, how we have to compete, but that we can win the competition.

DREZNER: Do you think it's possible to educate the public? I can think of citizens in the state of Ohio, Pennsylvania, France that might be somewhat resistant to this idea, no matter times it's pointed out.

VERHEUGEN: I know that. The most recent example, I expect, that when the IDS won the big contract in the United States, the immediate reaction was, this is not yet finished. The next day, already, it started. This is a protectionist reflex that we see very often.

But we should have learned a lesson from the (INAUDIBLE) in the 20th century. Closed markets are always wrong. Yes, closed markets create the damage and closed markets create poverty. The only way to solve the problem is to stick to the line, to defend open markets, to defend free trade, to fight against protectionism, United States and Europeans. We can survive that and we can even succeed in the competition, if we improve our own competitiveness.

DREZNER: Dr. André Sapir, you've written far and wide about the EU as an actor in the global economy. There seems to be a paradox with regard to the European Union. On the one hand, it's considered to be a global standard setter in a lot of areas. On the other hand, it's not clear in other areas where it has any competency whatsoever.

This is very difficult for Americans to understand. In fact, if I ever want to put my students to sleep, I just say the word, commotology and watch the eyes go flutter. The fact is I'm not sure there's much understanding in Europe as well.

Maybe you can enlighten us. Does the EU need to reform its own governance in order to be able to write the rules?

SAPIR: First, let me come back to the first statement that you said at the beginning of your presentation. You indicated that the E.U. and the U.S. only account together for a bit less than 40 percent of world trade. Obviously, the emerging countries, China first and foremost, is rising very, very quickly as a trading power and as an economic power.

Nonetheless, I think it's still the case today that probably well over 80 percent of the global rules are written in Europe and in the United States. That's point number one.

Point number two is your question, what kind of actor is Europe on the global scene, both on the rule setting and in other economic issues. I think I share the view that you put forward; it's a very diverse actor. Well, if you look at competition policy, the EU is a unitary actor, and it's an actor that speaks with one voice, that acts with the commission, forcefully so, and can discuss with Washington, with Tokyo, with other actors, on a one to one basis.



In other areas—well, look at Paul's area. He comes and speaks to the commission, but he has also to speak to other actors in Europe, because we know in Europe we have many financial regulators. We have dozens of financial regulators in Europe.

So, you're right. The situation is what I've called messy. It's messy when you look over the whole gamut of areas. I think what is—when I'm looking ahead, what I'm seeing is that, in a sense, we have come through 50 years of integration. You know, last year we celebrated 50 years of the Treaty of Rome. That's right.

In a sense, the first 50 years were, inevitably, inward looking. It was about integrating ourselves, more countries, more policies. Now we are in totally different situations. We have more or less integrated ourselves. It's not finished. It's always something in the making. But we have moved very much forward.

At the same time, the world is extremely different. I think one can ask genuinely whether one needs—I believe one does need, at the global level, to rethink a number of the global governance matters. Summit calls for a new Bretton Woods Conference. I don't know whether we are going to get a new Bretton Woods Conference, but one feels that one needs something like that.

One does need to bring the China(s) and the India(s) and the Brazil(s) on board. In order to do that, for Europe to be able to sit at the table and to speak with a voice that is being heard, indeed, Europe needs to reform itself. And now what it needs to do is, indeed, look to the 21st century. Everything comes from the 20th century. Move into the 21st century. Look at the challenges and the challenge does require quite a bit of reforms of governance, the way we are functioning, governance, or rule making, in order for us to be able to play a role in global governance.

DREZNER: This leads to a paradox. As you say, you don't want the EU to be inward looking, but, presumably, any kind of reform of its own governance structure demands that it be inward looking, at least in the short term. Do you think it's possible for the EU to engage in those kinds of reforms. Perhaps you think they should, but can they politically?

SAPIR: Look, I think we are going to get now a test, in the coming years, with this new treaty, the Lisbon Treaty. We know we don't have a minister of foreign affairs, but we have a representative.

(CROSS TALK)





SAPIR: Not so called minister—but we have known—we have this post of the high representative in charge of foreign affairs. As you read the press and you read the columns in different newspapers, you see it's rather messy. How is this person going to fit vis a vis the president of the commission and the presidents of Europe?

Clearly there is the recognition that there is a need to have something move forward. How long it will take—I'm sure the first few years are going to be very inward looking. It's going to be lots of fights about putting order between those three different posts, who is doing what, who is in charge of what. I'm sure that, initially, it is going to be extremely inward looking, but hopefully it's not going to last too long. And depending on the persons who will be appointed, one hopes that one will be able to cement the inward tendency and rise to the challenge.

The challenges are plenty. I mean we have been hearing throughout the conference what are the challenges, whether it's the challenges on our borders, the militant countries, Russia, whether it's the global challenges. They are everywhere, the challenges, so hopefully this pressure from outside will for us from inside to get our house together.

DREZNER: You talked about bringing China and India into the global governance structures. Now, we'd like to bring the audience into this conversation. If you have any questions for this distinguished panel, please let me see your hands. Mic's coming on the other side.

UNIDENTIFIED MALE: The global economy of the 21st century; one of the things that has interested me so far is that there has been very little talk of demographics. I'll give a figure -- if it's wrong, correct me. But I believe that currently the west, and I include Russia and Turkey, correspond to about 16 percent, 17 percent of the world's population and going down.

I gave another figure at lunch time. For those who were there, I apologize for repeating it. But if you look at the population of people aged between 12 and 24, there are 1.5 billion and 87 percent of them are in developing countries.

That gives you an idea. That's reality. As is said, demographics are destiny of what kind of global economy we're going to be in. I was also pointed out, quite correctly, that in the EU, and to a certain extent, the United States, there is a strong feeling against globalization. This is in complete contrast to the situation in Vietnam, in China, in Bangladesh, in lots of Latin American countries, etc, where people are extremely Gung-Ho about globalization. What they would like is a lot more globalization.

I think the question is: when you come to write rules, do you give —you ask the people who write rules—and I think we need new rules for the 21st century, quite a different environment. Is it the people who don't want to play who should write the rules, or is it the people who want to play and want to have a more dynamic global





environment, who should be invited to write the rules, and we can help them with the odd comma here and full stop there?

VERHEUGEN: Shall I start? I share your view. I must say that the demographic factor is one of the most important reasons for the economic strategy that we have in place. The acknowledgment that Europe must urgently improve competitiveness is also built on the fact that our aging population in the European Union will create strong, strong pressure on the traditional welfare state. We will not be in a position to finance it if we do not change some structures.

Therefore, in my view, in the view of the European Commission, good organization is an excellent opportunity to improve and strengthen our economic base and now coming to the question of [inaudible]. What I see as a tendency since a couple of years these -- that our rule making is let me say more and more vindicated. We are putting more and more partners in. It's now G8, WTO despite the fact at present do have [inaudible] at incredible state but I know but in principle you see that more and more emerging economies wants to be part of the system that we have created and we have to confess that we certain rules for decades. So ideally, we would set our rules in an international global market context.

So if you want example, that there is no way to warrant it. We cannot create a global low carbon economy without global governance. Yesterday and today before we had European Summit here in Brussels and just coming from it it was obvious that all our efforts in the European Union and the efforts that will certainly come from the United States will not help very much if they cannot bring the emerging economies in and the only way to do it is to treat them as equals.

Another example of what we are doing the United States and the Europeans now together in the transatlantic economic council was already mentioned and we're not going into details here. What I want to say. I see it on the long run as an exercise in global leadership. If we can successfully prove that we are able to remove non-tariff barriers and obstacles for trade and that we are able to find convergence in regulatory matters we can easily export that to other part of the world and I can tell you that since we have this instrument the interest in countries like China and Japan to discuss similar matters with us is much, much stronger than it used to be, and so we see some good signs not only the bad mood that I have presented in my first statement that I've been saying that conversation is seen as a threat. I see also that policy making can make a difference.

PALACIO: The first thing that occurs to me with your question is that in this forum we have to realize that United States has Atlantic and has Pacific and that the big demographic push is the Pacific and I think that this should make us reflect on giving a content to this transatlantic relationship. This is the first comment.

The second comment. Well, although we are old and in Europe we are happy to be all the societies and we cope with this, I think that being old is not equivalent to



having to be written off and I think that Europe proves that. I think that the most interesting experience of precisely listening and precisely reaching agreements taking onboard and adding up different perspectives is the European Union, this fantastic achievement of old Europe in the first place. So having said that, do I think that we have to address this issue? Yes. Andre Sapir mentioned that we need a new Bretton Woods. Well first of all, in this symbolic level that I mention that is so important because perception is so important we have to address the existing better moods institutions and the voice and representation there and even as Bob Zoellick, the President of the World Bank yesterday mentioned that the changes will not be big. The symbolic message is there. I think that this that there in Europe must think -- must react and address that as Bob Zoellick said that they are eight chairs that are -- this is a way to count it but at least there are three chairs that are European and that are just Germany, just France and just the UK. The others are shared chairs that we share with other countries. So, we have to address this issue? Yes, we have them at bilateral institutions. Lets begin by that.

QUIGLEY: Okay. I just wanted to replace the world challenge with opportunity because I think we're talking about this in the spirit of a win lose and that if there are other players that come on the stage and they have stronger power than perhaps we might have once enjoyed as the US/EU that we're somehow losing and I'd like to replace that with what a tremendous opportunity as this economy diversifies and as new players come and I believe who will write the rules for the economy in the 21 century will be those who choose to participate in the economy in the 21 century and one proof point for that is I think customers have a very strong voice and so when Wal-Mart decides we're only going to carry BlueRay, all of a sudden the war is over with respect to BlueRay versus high definition DVD and I think the customer will write the rules and having the U.S. economy slow down but yet have real growth in exports to China and India and Russia and Brazil that's terrific because it mitigates the impact of that U.S. slowdown of what it otherwise would have been. But we have to think about it in terms of the opportunity not the challenge in a win lose kind of way.

DREZNER: Question down here.

VIVIEN SCHMIDT, PROFESSOR, BOSTON UNIVERSITY: Vivien Schmidt, Boston University and Sciences-Po. I'd like to come back to the question of globalization and offshoring and I guess the big question is who are the winners and losers of globalization and I think the question is a question of which countries or lets say in Europe or in regions in the U.S. and what about tied to the workers? We know that it was first manufacturing. Now we see it increasingly in services so how do you respond to the real problems and the fears that people have?

So one is how do you respond to the publics concerns? What kind of discourse do you provide? And then what kinds of reforms and in which countries? So is it -- I mean we hear for Europe it's generally Continental Europe. It's France, Germany and Italy. It's the Midwest in the U.S. So what kinds of reforms and then I guess the final question is when you listen to EU leaders, Barosso and Merkle talk about shaping globalization.



Sarkozy talks about protecting in globalization. What does this mean? How do you do this especially now that you're talking about having to have global rules and not simply European and American rules?

DREZNER: Andre, I will give you the very challenging task of interpreting President [inaudible].

SAPIR: I'm going to take the part -- the first part of your question and--

DREZNER: The academics screwed up.

SAPIR: The way I'm going to answer the first part of your question is in the following manner. When you -- you know those view bar meters -- those polls that ask throughout Europe same questions and the obvious question is about globalization. Now when you ask the citizens of Europe about globalization do they feel that globalization is an opportunity the way most of us would put it or is it a threat.

Clearly, the majority sees it as a threat. Now looks like a little bit more finely. Who -- what kind of characteristics and as one would expect if you look at personal characteristics while younger individuals are more optimistic older ones less. More educated they see it more as an opportunity. Less educated they see it now as a threat. That's what you would expect but the more interesting element is to look across countries because indeed if you look at the second question being posed throughout Europe the 27 countries it runs from some countries which most [inaudible] to some that see almost 100 percent as a threat and it's interesting to see which country can you try to detect why is it that some countries are positioned on one end and why is it that other countries are positioned on the other hand?

Now by my reading, obviously different people would have different reading. My reading is that there is a very strong correlation between the way -- I'm talking across the Europe consistent and then I'm going to come to the U.S. There a very strong correlation between the social kind of systems. How the social systems, the social levels because that's hard to argue otherwise. There is not a European social model. I mean that's all nonsense. Europe and social models -- that variety of Europe and social models and some of those social models are operating rather well in today's world which is a world of rapid change and some of those models yes you can see its rather the Scandinavian but to some extent also the Anglo-Saxon and yes France is on one hand and yes Denmark is on the other. There's not doubt about that.

And then you see different countries where they are and it's very, very strongly correlated. So in some countries there that able and all the discussion there is in Europe, and quite rightly so, flex-security. I mean this is the kind of thing that one needs. One needs models that people feel can respond to those changes because changes are going to be there whether it's called globalization. Called technological change. Call it aging, call



it climate change. However you want to call it it's going to be change and change is going to create this kind of issue.

Now the last thing I want to say about this. There's a problem also in the U.S. and I think quite rightly in this campaign today the health system has come at the top. I mean this is a major, major problem for American society because health is also -- I mean people are fearing for their jobs because jobs go together with health systems so again when this kind of -- also part of the social reform so this is what I would answer to you.

DREZNER: Steve Clemens.

CLEMENS: Thank you, Dan. I want to come back in part to Dan's earlier question about backlash but, but and perhaps this won't make sense and it's the wrong place to do this. But it seems to me in the 1990s, globalization, economic integration had a kind of profound momentum. Sort of Tom Freedman asked Goldman -- you know sort of Goldman straight jacket determinism. There was a convergent -- a view of convergence of all societies and that seems to be over and I sit in a lot of discussions and to some degree Dan's comments about backlash some of the stress you mentioned gets at this. The discussion about sovereign wealth funds to me seems to be a manifestation of a very different kind of order and I'm wondering if we need to sort of rethink globalization as a concept.

Globalization in my mind is sort of the -- an integration -- a high trust integration -- higher and higher trust networks of moving people institutions and ideas across borders but borders seem to be back. They seem to be thicker. There seem to be more in the self-determination movements. Sovereign wealth funds are themselves a kind of check if you will -- a shock absorber because of the lack of trust in the international system after the East Asian shocks in '97-'98 and so to some degree I wonder what -- do we need to be talking about what -- how fear globalization looks like as opposed to high trust globalization.

In these kinds of discussions, I don't see any real paradigm shift that everything seems to be going towards an integration and towards a view of this like it use to be in the '90s, but to me when you look empirically, there's a lots of stuff that seems different.

ATKINS: Well one thought on that. If you look at the financial markets as sort of a bellweather of peoples' attitudes because money is very fluid, very liquid and really does move around the world these days at lightening speed and very quickly. There's been a profound shift over the last 10, 20 years as to barriers. There are no more barriers basically in effect in the financial markets because countries have found that they don't work.

Last time, say France decided to try to do something with respect to the financial markets they quickly found -- this is when Mitterrand first came in in 1980 or whenever, quickly found that it was ineffective and France had to dismantle those barriers.



DREZNER: Malaysia did have better luck though?

ATKINS: Well, arguably, although in the long term it came back. But a lot of this is powered by customer and investor reaction and so then that powers how firms go about to try and meet those sorts of needs and if you look at -- I guess generally the disconnect is -- this goes for all three questions really is how do we educate people as to the benefits of globalization and the realities. A lot of people see the negatives. They don't see the positives and I think that's really the challenge for our politicians ultimately at trying to get that across.

VERHEUGEN: If you're allowed to make a short remark here. I'm not serving in the second European Commission and I wouldn't agree to say that the momentum is going down just in the country. I see as strong, strong change. Even a change of paradigms -- shift of paradigms. In my first, I would agree that Europe was very reluctant to tackle the challenge or the great opportunity of globalization but now we do it. Shaping globalization in the language of the European Commission means to make Europe fit -- make Europe fit prepared for global competition.

The message that we have for our economies, we do not protect you. The issue is -- the message is you have to compete and what we tried to do is in a multilateral framework to create framework conditions which are fair and which are beneficial not only for you but also for our competitors worldwide and we're fully agreed to say that we need to make globalization a win-win situation for both sides. It's not a zero-sum game. It is so far as I can see today it's to the betterment that benefits both sides. We have seen in the developing countries hundreds of millions of people coming out of misery and poverty and they are now market participants and it will increase of course. Just start with a small car and after 10, 15 years they want to have a Mercedes or BMW. It's quite clear and then in the European Union we can clearly see. Those countries which have started to restructure the society and the economy to build the knowledge base society and the knowledge based economy combined with flexible labor markets -- combined with strong and [inaudible] capacities these societies and economies are a winner and that's the model that we want to have everywhere in Europe but the whole substance of the strategy that we have in place.

DREZNER: Gentleman in the back there.

PATRICK MESSERLIN: Patrick Messerlin, Sciences-Po, Paris. I am a little bit uneasy about what has been said until now because I got the impression that basically things are going pretty well even if it is messy but the community on one hand the European Committee and the U.S. are writing the rules. That doesn't fit the facts that you can look at. When you look at the indicators either the index of freedom they are doing business database, all the database you can have under OECD, all these databases doesn't work this way. The countries for example if I take Europe the countries -- some countries are doing very well very quickly going from a backward situation or they're going from



the front of the situation in the mid-'70s France and Germany was the least regulated countries at this time. Now they of course are backwards.

UNIDENTIFIED: Germany is better?

UNIDENTIFIED: In the mid-'70s were less regulated than the U.S. but you look at this is really what the impression you have it's a kind of competition between the countries, even between the United States. The last example I will take is the better regulation movement in Europe which in fact has really been launched by Ireland by the Netherlands then joined by Germany and finally, to these days France is saying maybe we should join the club. It's not something which is going from Brussels which is coming from the capital cities, which are just taking the risk to improve their regulations definitely from the whole world. It's a competition world between member -- the states and member states within the community. That's the figures.

DREZNER: I'm not sure there was a question there. I think it was more of a comment.

VERHEUGEN: I strongly disagree. Strongly disagree. Figures don't show that and one thing is obvious. The much -- the stronger performance of the European economies that we see now in particular in Germany the [inaudible] is a result of policy changes in Europe. Macroeconomic conditions have changed as a result of the introduction of the single currency. We have a culture of stability that we have never seen in European member states before and by the way if I am allowed to say that makes the big difference between the European Union of today or the Euro zone of today and the United States. They are strong macroeconomic ability that makes us less vulnerable and number two is we have completed the internal market. That again makes us less vulnerable.

The internal market was not completed a couple of years ago. Is now a better paying are looking strongly and are biggest part of economic activities in European member states activities in the internal market and among the participants of the internal a certain element what we should never forget. I know that you have discussed the enlargement of the European Union at an earlier session but I would like to make the points since I had something to do with it. That we have emerging economies, emerging regions in the European Union as well. Eastern and Central Europe is central for the recovery that we have seen, a [template] for the high growth rates, for the high employment rate and the falling employment because they create strong demand in the older member states. So I certainly do not want to paint a too rosy picture but sometimes we are not very good at saying what we have already done. We always discuss what we still have to do but I'll go back to mention that have I achieved something.

DREZNER: Gentleman in the front.





WOLLACK: Ken Wollack with the National Democratic Institute. I wanted to get back to the question of communication and dialogue between those setting the rules and those feeling left out by the process and the Commissioner talked about this being a challenge. I remember during the 1970s in the Peres government in Israel when they were forced into a social path between government, business and labor to deal with runaway inflation that was going to lead to an immediate 20 percent reduction in the standard of living.

And I remember the then treasury secretary -- finance secretary [inaudible] Kobe emphasized this notion of communication with the public and he told this story of the man who was sentenced to the electric chair and on execution day he began to sit down but he weighed 200 kilos and he couldn't fit in the chair and the executioner said do you mind losing 50 kilos. He said I don't mind but you're giving me no incentive.

The question is what are the incentives? What mechanisms can be used to communicate those incentives to those who are fearing this process or what mechanisms should be established for communication and dialogue?

DREZNER: Ana, do you have any thoughts?

PALACIO: Well I think this is the one million Euro questions. It's a bit challenge. Once more I will go back to what Andre Sapir said in Europe where as commissioner Verheugen has said we have everything from extremely developed to emerging economies. We have seen that there are certain political approaches that work and the Nordic Scandinavian countries are -- have been particularly at that.

VERHEUGEN: Well they have the highest taxes and the highest [inaudible] not to forget? Highest taxes. Highest.

PALACIO: The highest taxes but at the same time a system--

VERHEUGEN: Americans normally would not appreciate that.

PALACIO: So I think that there are best practices out there that can be studied and adapted and from a European perspective what is really concerning is for instance the debate in the presidential campaign in the United States where we see suddenly just two candidates are disavowing what has been one of the foundations of these system that we are set to defend and to promote so there are best practices and there are I would say very difficult to understand practices and I think that you have -- we have the choice all of us. There is responsibility there. Politicians have to take it.

DREZNER: Woman in the back there.





HYBASKOVA: I'm most probably since I come from Prague one of the real beneficiaries of Europe integration globalization transformation liberalization and as we call it--

DREZNER: Could you give us your name please, I'm sorry.

HEBASHQUAN: Jana Hybaskova, I'm a member of the European Parliament. Nevertheless, I would like to point to the fact that the syndrome of standard of Californian car is not applicable everywhere and we have a problem that some goes for higher standards and some others simply try to buy the cheapest thing and not to work and not to engage. We can speak about globalization in Malaysia, in Vietnam which were mentioned here in China, but unfortunately, if we look to Algeria, Libya, Egypt, Lebanon, Palestine, Syria and I would really like to point to Egypt, I would like to pose a question.

If we EU and U.S. set 80 percent of global rules, which kind of rules are you really going to apply to get especially Egyptian economy to become part of global economy? Because what is happening in this part of the world we all know that in the center of Cairo we have vastly growing rich people. Very, very few amount, and we have almost 60 million people who are absolutely left out of globalization which are just on the banks of the sea which we call our inner sea. I'm not speaking about repercussions for security and war but speaking about repercussions for our direct neighborhood so which kind of rules? Not the competition question are we going to apply to them. Thank you.

VERHEUGEN: Of course this is not such a complicated question. We have regulatory dialogue we call it with all the countries in our neighborhood and the game is of course to create regulatory conversions and while the normal way is that we help our neighbors in the partnership agreements which we negotiated with them to implement rules which already exist in the European Union and have proven to be successful and valuable. So the deal is really clear. We offer free access to the most important biggest and strongest market in the world which is the market of the European Union. We offer that but we tell them our partners they are rules which need to be accepted but we don't impose the rules on them. We develop them. We discuss them and we help them to implement the rules and these are sometimes of extremely technical nature.

The biggest part of the rules which we are discussing here are technical standards and when I started by present job, I found it extremely boring to deal with the standardization. Now I do the standardization every day. I know it isn't exciting because they are still your competition. Who sets the technical standards? My policy is not that the European Union or the Americans set the standards everybody else must follow. I wanted to do that in the international fora and international body and we do it more and more in Geneva, we do it more and more in framework of OECD and we can also do it in the framework of the WTO.

DREZNER: Andre, do you want to do this one?

SAPIR: I don't know whether I agree that it's an easy question. I think it's an interesting question and I think that allows me to branch to I think a very important topic on which Commissioner Verheugen in a sense which she address just a second ago of the free trade areas. I mean there's clearly a proliferation of free trade agreements and in particular free trade agreements that have centered either on the EU or on the U.S. We have many, many free trade agreements. The U.S. has many. Some of them assigned not yet ratified. Maybe never ratified but that there the Koreans and we have Morocco. The U.S. is Morocco.

Now the new free trades areas -- the free trade agreements they are different from the previous ones right. The previous ones that we were really dealing with trade. It was about tariffs, traditional free trade areas. The new ones they're about regulatory matters and the question which I find not so easy to answer to which I personally don't have an answer because I see the pluses and minuses there in a sense there is a competition no doubt between the EU and the U.S. on this front despite some of the rhetoric.

There is clearly a competition because there is the element that each of us are setting the rules and we feel through those new generation of free trade agreements we are expanding more rules and you can say well to some extent let's take Egypt. Egypt is in the [inaudible] union. Those are neighbors. They are conscious with whom we trade a lot. They trade mostly with us and it's maybe natural but at the same time we are fragmenting the trading system or the regulatory system so we are doing it not just because we think that Egypt should have our rules and having our rules is a great thing, we also think it gives us a competitive advantage. We are not just doing it for Egypt's interest. We're also doing it for our interests and our interests means necessarily at the expense of somebody else's interest whether it's the U.S. or whether it's China or Japan or Korea.

So this issue of expanding our regulatory system which is pluses because some of those countries do need a much better regulatory system obviously. That's the good side. The bad side is that there is a competitive element vis-à-vis the other partners that we are doing it for the interest, naturally of our companies at the expense of somebody else and where are we going. So you see in some countries you have free trade agreements of this generation by the EU and by the U.S. and you say well we have a level playing field. What about all the other countries? What about India? What about Japan? What about Korea? What about Brazil? So yes, we are saying we should do this multilaterally but in a sense is very hard to do this regulatory system at the multilevel. I mean it's desirable but the reality is that it is ultimately a more national level.

DREZNER: It's interesting that you say that there would be problems that would be perceived as unfair. It's not on a level playing field if we let in Japanese or Indian or Brazilians. Of course from those countries perspectives the current system is already unfair and the question is how do your reform that? Ana, you had a short comment.



PALACIO: I normally being a lawyer by trade I normally underscore the importance of rules. But honestly, we in the European Union and I come from Spain, another country that we benefited from there. Of course those are important but let me just -- you pointed out the southern border Mediterranean. What is striking is the lack of integration, of [vertigation], of these countries so you may have all the free trade agreements but you need to bring these goods to a port. You need to have roads and what really made the difference for us in Spain. We don't have that much of the rules of the European Union but honestly the possibility to motivate the country and this is where the I think that allows me to branch to I think a very important topic on which Commissioner Verheugen in a sense, which he addressed just a second ago, the free trade areas. I mean there's clearly a proliferation of free trade agreements and, in particular, free trade agreements that are centered either on the EU or on the U.S. He have many, many free trade agreements, not the U.S. as many, some of them signed, not yet ratified, maybe never ratified, but that they arrived at. The Koreas and the -- we have Morocco. The U.S. has Morocco.

Now, the new free trade areas, the free trade agreements, they are different from the previous ones. Right. The previous ones they were really dealing with trade. It was about tariffs. Right. Traditional free trade areas. The new ones, they are about regulatory matters. And, the question, which I find not so easy to answer -- to which I personally don't even answer, because I see the pluses and minus there, in a sense, there is a competition no doubt between the EU and the U.S. on this front, despite some of the rhetoric. There is clearly a competition, because there is the element that each of us are setting the rules and we feel through those new generation of free trade agreements, we are extending our rules.

And you can say, well, to some extent, well, let's say, take Egypt -- Egypt is in the Minintern Union. Those are neighbors. They are countries with who we trade a lot. They trade mostly with us. And, it's maybe natural. But, at the same time, you're fragmenting the trading system or the regulatory system. Right. So, we are doing it not just because we think that Egypt should have our rules and I think our rules is a great thing, we also think that gives us a competitive advantage. Okay. We are not just doing it for Egypt's interest, we're always doing it for our interest. And our interest means necessarily at the expense of somebody else's interest, whether it's the U.S. or whether it's China or Japan or Korea.

So, this issue of expanding our regulatory system, which has pluses, because some of those countries do need a much better regulatory system. That's the good side. The bad side is that there is a competitive element vis-a-vis other partners that we are doing it for the interest, naturally, of our companies at the expense of somebody else. And, where are we going.

So, you see in some countries, you have free trade agreements of this generation by the EU and by the U.S. And you say, well, there we have a level playing field. What about



all the other countries? What about India? What about Japan? What about Korea? What about Brazil?

So, yes, we are saying we should do this multilaterally, but in a sense, it's very hard to do this regulatory system at a multilateral. I mean, it's desirable, but the reality is that it is at some more national level.

DREZNER: It's interesting that you say that there would be problems that it would be perceived as unfair. It's not on a level playing field if we let in Japanese or Indian or Brazilians. Of course, from those countries' perspectives, the current system is already unfair. And the question is, how do you reform that?

Ana, you had short intervention?

Ana Palacio: I normally, being a lawyer by training, I normally underscore the importance of rules. But, honestly, we the European Union, and I come from Spain, another country that really benefitted from there. Of course, rules are important, but let me just -- you pointed out the south of the border Mediterranean.

What is striking is the lack of integration or vertebration of these countries. So you may have all the free trade agreement, but you need to bring these goods to a port. You need to have roads. And what really made the difference for us in Spain, it was not that much the rules of the European Union, but honestly, the possibility to vertebrate the country. And this is where the common effort of the international community, plus these countries have to address this, the education system, other basic areas.

President Bob Zoellick yesterday highlighted that one of the priorities of the World Bank of the 21<sup>st</sup> century and this idea of the inclusive and sustainable globalization is the Arab world. And, the Arab world, because of this -- because the Arab world has certain characteristics that contrast the EU is a symbolic thing that does not translate into the real daily life of the people that live in this region.

Mark: Paul, you wanted to say something.

Paul Atkins: Yeah, one last quick point to -- cause I agree with this point. We can pretend in the west to set rules. We do, obviously, but if -- but we have to realize that we don't set them in a vacuum, that there has to be balance between cost and benefit. And if you look at the global capital markets and you look at emerging countries like Egypt and others, there are entrepreneurs there who have great ideas probably, but they have the lack of access to capital. But that's changing. And if you look, Hernando de Soto was a Peruvian economist, who wrote a great book called *The Mystery of Capital*, which I commend to you reading, where he did a study with the World Bank to look at the number of different emerging market countries, forgotten the why are they not developing like they should. And he came across his theory is, there's dead capital there.



There's not the an ability for people to either borrow money, put up collateral and have access to capital. That will soon change.

DREZNER: Lack of property rights.

Paul Atkins: I'm sorry.

DREZNER: Lack of property rights.

Paul Atkins: Exactly. And that will soon change and it is changing in Egypt and other countries. So, we in the west have had fertile soil for entrepreneurs like Gottlieb Daimler and Karl Benz and Alexander Graham Bell and Bill Gates and others to have access to capital and build great companies and great ideas that answer the needs of consumers. When -- but we can't rely just on that. That sooner or later, around the world that people will soon have access.

Ana Palacio: On the -- how can you have property rights, if you do not have a legal existence? Many people in these countries do not have a legal existence. There is no registry. They don't have a legal society. So, I think that this problem is a huge one.

Unidentified Participant: Just a (inaudible) from the Bertelsmann Foundation, I have a question that comes more from the foreign policy perspective. This discussion as a couple of other discussions here these days are kind of inspired by the assumption that we're on the eve of something else. That there's a paradigm shift or that the world is not going to be the same soon.

On the other hand, I get the impression that we act as if we still had quite a lot of time. So, I'm asking myself, are we using the moment? Or are we losing time on this?

And, for example, I wonder why don't we have a kind of momentum within the European Union to spend at least, let's say, 20% of the energy we invested in the Q&V reform on empowering the commission with a single mandate for all of the tradable items. Has to do with member state competition that on in part of the services, the member state still reserve rights that should belong into a singular spot.

On the issue of regulatory convergence, we have now in the Transatlantic marketplace brought this up. I think we should be much further down the line on this.

On the issue of agricultural subsidies, when, if not now that prices are skyrocketing for agricultural products, do we have the opportunity to put this issue behind us?

I do not see -- there may be movement behind the scenes that I'm not aware of, but I do not see that we're really trying to clear up the agenda, because there is another one looming on the horizon.



And, finally, shouldn't we embark on a strategy, not only to try to draw the bricks countries into kind of regulatory exchanges and reams, but specifically draw in the smaller emerging markets in order to create an environment also for the larger countries within the European Union? Using the impact of bringing around the larger number of smaller countries has always been beneficial. And, shouldn't we not also use this on the global scale?

And, finally, that's a specific question to Ana Palacio and Gunter Verheugen. If we do not exclude that in the end, some of this rule bargaining will be pretty much 19<sup>th</sup> Century dealing of great powers among themselves. How do we prepare Europe for that kind of business? How are we prepared to engage into dialogues when other actors, not only speak about rules and regulations, but bring their share size and power to the table?

DREZNER: Actually want to go to Jim, first, to go back to Joseph's first question, which is frankly, you work in the private sector, you're used to things going relatively quickly. When it comes to regulatory convergence, writing the rules, are we just too damn slow?

Jim Quigley: I think that democracies just by their very nature are slow and somewhat plodding and we have a hard time giving up power. But I think that the notion of, can we set some standards at a global basis with some private sector body, the -- what I think the accounting model has actually provided to us and then have that embraced with national regulators, who will then oversee how those standards get implemented. And let's let all the participants in that global economy help us set the standards. And, I think, then, we can take some of these steps forward.

But, I actually believe that we are taking very significant steps forward. When I go to Shanghai and Beijing, it looks to me like they're moving. And when they talk to me about 350 million people lifted from abject poverty as a product of globalization, I think some things are working.

I was in Sao Paulo last week. It takes an hour and a half to get to the airport, because there's 800 new cars coming to the road every single day as we have millions of new participants in that economy and they haven't yet built the infrastructure to go with all of this new found affluent participants in the economy.

But, I think globalization is -- there's a lot to like about what globalization is doing for us also in the western world.

Gunter Verheugen: I think, the question for Ana and for me was whether you accept the role as a global player in the 21<sup>st</sup> century or not. And this is for me also the big question and the real issue. This question is not decided, to be very frank. It's not decided. Economically, we are really strong and we are developing our capacity to defend our economic interests, to set global rules. Economically, we are a global player. There is no doubt.





I would even correct one of your points, in trade policy, I think that the importance of the European Commission is not less than the importance of the U.S. administration. I have now a lot of experience, but there is not such a big difference. I think they might be even a little bit stronger. So, it's not the point.

But do we have a global strategy? Are we able to implement it? The answer today is no, but I share Andre Sapir's view, what he has said earlier. The new treaty might, might start a new area. The whole thing why we needed a new treaty was exactly to answer that question. How will Europe react if and when, and I'm absolutely sure it will happen, the economic multi-polar that is developing, but turned into political multi-polars. Maybe have to multi-polar world rising powers, world powers, world powers, which role that you will play. And that's my defi -- my answer is, it is historically inevitable that European integration will go further. This is not the end. It is not yet the end of the story. And I promise you, during our lifetime, been (inaudible) our state of health, of course, but the principle, I believe, that during our lifetime, we will see the political union that makes Europe truly a global political player.

Ana Palacio: Well, I, just a couple of sentences. I fully agree that this is the easy show of inward looking. I will add another dimension. I think that many times, and Commissioner Verheugen raised this issue as well. Many times, we Europeans, we do not realize what we have achieved and we are loaded by our history, by our very complex and complicated history. And we do not believe, if I'm not just accused of plagiarism, we really should say, yes, we can, yes we can be at the leadership of this process of globalization.

DREZNER: I don't have much experience as moderator, but one rule of thumb I always have is if Bruce has a question, I'll call on him. Bruce?

Bruce Stokes: Bruce Stokes of the National Journal. I don't want to follow up on Joe's question that puts this in timeframe context, cause it seems to me that issue of relevant timeframe is terribly pressing on this point. It may well be true that over time, who sets the rules has to be broadened to include other people, but the experience of the Doha Round is that for a variety of reasons, those players are not ready or willing. The Indians need a generation to adjust their agricultural system. The Chinese seem to be doing very well, thank you very much, and so why should they play. And, I think that we need to address those issues on rule setting over which we have some control, which is the transatlantic rule setting exercise that has been alluded to. And, with all deference to the accounting standards issue, it seems to me that may turn out to be a special case, where we had the U.S. Congress pass a train wreck of a law that forced the issue. The Transatlantic rule setting process doesn't have a whole lot of other successful credits to its more than decade long process. So, I guess, the challenge that I would put to all of you is, why do we think we can in the near term, in the Transatlantic context, be any better at setting rules between ourselves than we have been to date?





DREZNER: Thanks, Bruce, although one should add that if we're counting on stupid laws to promote convergence, we shouldn't have any problem in terms of a supply for that. Does anyone want to offer an answer? Well. Yeah.

Paul Atkins: Here's a one to venture and to take off on the yes, we can. Yes, we must, basically, because again the world is getting smaller all the time. And, I think, the one thing that at least, speaking for regulators on both sides of the Atlantic, we realize that we are -- we share so much affinity from history, culture, business relationships and you see the growing number of international groups and starting from the top with the Transatlantic Economic Council, the TADD and the Transatlantic Investment Dialogue and there's other sorts of groups, everything sort of needs a little bit of time to get momentum. But if you look at the current economic turmoil in the marketplace and you see the coordinated activity just this week by central bankers on Monday and elsewhere, I think you're seeing much more realization that yes our rules need to be much more integrated and the two sides of the Atlantic have to stop talking about us versus them, but it really us in the end.

Ana Palacio: Well, I fully agree. I mean, there are success stories, but there are many just near misses. One of them, just to mention, but one, the data protection. Data protection is one of the systems that is absolutely convoluted. It's crazy how we developed our data protection directive without any dialogue with the United States. And when we had the directive and we have to implement the directive, we were in a position where most of our companies that have one American face and one European face could not transfer say from Brussels to Atlanta the data. So, you are right. This is an area where nobody can rationally understand why we are not being much more effective. There are some attempts to that. And, in the end, I think, I'm a born optimist, so, I think that we must. I think that the business community by getting together on this Transatlantic Business Dialogue is a good example. An (Arica) man who is there is one of the big players in the European parliament. This is the kind of pressure that both legislatures need to just be more rational.

DREZNER: There are many perks to --

Ana Palacio: And the last word is leadership. We need leadership.

DREZNER: There are many perks that come with being a Brussels Form Moderator. I'm going to take advantage of one of them and ask you the final question. You can also give your summary comments, which is -- there are a variety of important international institutions, Bretton Woods institutions. And the problem is they were all created mostly between 1945 and 1955. The distribution of power in the world looks a little bit different now. The question becomes, what's going to be easier. Would you rather try to reform the existing institutions and these are important ones? Or should we just try to create new ones on top of the old ones?



Ana Palacio: Well, ideally, we form them. The Bretton Woods institutions, the World Bank in particular, was created to reconstruct Europe, mainly, but it was reinvented already during the decolonization, the independence period as a tool of the international community, the free world to compete with the Communist world by having a access or giving access to the developing countries access to the international capital market. So, we have already transformed one these institutions. And, I think, frankly, I mean, I think that (technical difficulty).

From the World Bank and from the front, I think that there is a clear conscience and at least at the World Bank, there is a clear strategy to just respond to this, no challenges.

Gunter Verheugen: In principle, I do believe in Schumpeter's constructive destruction --

DREZNER: Creative destruction. Yeah.

Gunter Verheugen: Yeah. In principle, yes, but as far as (inaudible) concerned, I would be careful and I would follow Ana Palacio's advice to build on the existing institutions, but certainly modernize them, but my point is another one.

The Bretton Woods institutions were made on a completely different economic and political conditions. That is, they do not meet some of the challenges, which we have in the 21<sup>st</sup> Century. For instance, they're certainly not sufficient to address the question, what are the political consequences, what are the lessons we have to learn from the financial sector crisis. We have not discussed it here. I guess --

DREZNER: Which one? There's so many.

Gunter Verheugen: I guess you have discussed it in another forum, but this is also a question of writing of rules or not for this sector. If the biggest threat to our economy today is that the financial sector crisis turns into a fully blown economic crisis, then we have a very serious problem. So, the question arises, who can do it, where can we can do it. We do not have the institution. The only one I could see is the G8 would start as a kind as core group to write these rules. But, Bretton Woods, simply to create new institutions is not enough. We need to have a framework that allows us to take the neutral issues to tradeoff.

DREZNER: Andre?

Andre Sapir: To me, G8 is passe, really. G8 is the 20<sup>th</sup> Century. And the 21<sup>st</sup> Century needs to incorporate indeed some of the players from --

Gunter Verheugen: G15.

Andre Sapir: Yeah, G15, G20, whatever, but it needs to be something different. And I think that goes for the -- I mean for the World Bank. The World Bank, the IMF, I think,



unless we manage -- to we, I mean the global community -- we manage to reform them pretty soon, they're just going to be obsolete. And I think that sends us back to Brussels to the Brussels dilemma, because the Brussels dilemma is the following -- on the one hand, one word that we often put forward is multi-lateralism. How we believe in global governments. How we believe in multi-lateralism. And, therefore, how we believe in those Bretton Woods institutions. On the other, we have the problem of getting our act together. I think one seat at the World Bank, one seat at the IMF and the two are connected. Unless we are able to remove some of those chairs around the table and leave space for others, the others are being frustrated. And they want to create other institutions.

DREZNER: They might create their own institutions.

Andre Sapir: They may create their own institutions. And we see, I mean, look at what's happening in Asia. How much do they need the World Bank today? There is the Asian Development Bank. Their capital coming from directly from China, from India. The same thing in Africa. So, those institutions are losing little by little, their relevance. And their losing their economic relevance, because we are in a different world. They are free -- I mean there's capital movement. There's private capital. But there is also the frustration of some of those countries that -- and we see that with the appointments of the heads of those institutions. So, I think one really needs to get to one's act together and quickly so.

Paul Atkins: Well, I agree. I think if you look at the span of history, you have institutions and ways of doing things that come and go, yet the (Turino taxes) and the (fuggers), who built up a financial institutions during the Middle Ages, but then those got superseded by national and other sorts of institutions. And same here with 20<sup>th</sup> Century institutions that were born out of necessity after the Second World War will sooner or later become irrelevant and move on. But, just like any other marketplace, other sorts of things will grow up. And whether they are instituted through multinational treaties or grow up out of necessity of -- just spontaneously, I think that will be the -- we'll see how that goes.

DREZNER: Jim, you get the last word. You're an American businessman, so I'm going to ask you to follow stereotype and be brief.

Jim Quigley: Dan, it's lead, regulations follow. We're not going to regulate ourselves to prosperity, we're going to let the markets lead and we're going to then regulate when we need to deal with some trust and confidence crisis, like the one that we have right now in the financial markets. I think markets lead, regulations follow.

DREZNER: God bless you, man.

Karen Donfired, VP, German Marshall Fund: -- the rules of Brussels Forum. They're really not rules, they're guidelines. There's more to come. Tonight, at 9:30, we have



three wonderful night owls. One is on Russia under new leadership. One has to do with the Muslim experience in the post-9/11 world. And the third has to do with China policy. So, please come back after dinner. Dinner is very informal. It's going to be in the Crystal Palace, but it's a buffet so you can network with whomever you want. And, hopefully, we'll see you all again at 9:30. Thanks.