



## After the G20 London Summit: What Next? Three Breakthroughs

By Colin Bradford

The key question is what is the leadership strategy involved in global summitry now and looking ahead? To a significant degree the global economic crisis can be considered a crisis of confidence. Beyond that, the international institutions and groupings minding the global economy appear to have slipped in their grasp of meeting global challenges and in their grip on their mandates. There is considerable concern about whether the international system is up to the tasks of the 21st century and whether there is any configuration of cooperative leadership that can realign the system to meet the future rather than to reflect the past.

The success of the G20 London Summit does provide some hope for the future. Not only did an expanded group of major countries meet at head of government level for the second time in London, they managed to set in motion significant concerted actions on across a broad

set of issues. The fact is that the London G20 Summit communiqué was more specific, ambitious, and decisive than many G8 summit missives.

But problems remain before the world can feel safely shepherded to more secure shores. The major challenge ahead is in giving the global public a sense that a new locus of global leadership has emerged which can assert the public responsibility that was vividly lacking in the financial crisis. At least three major breakthroughs need to occur for significant new dynamics to be embedded sufficiently in current practice to transform the obsolete system of the mid-20th century into one adequate to the needs of the 21st century.

First, there needs to be a deliberate effort on the part of leaders from East and West, North and South, to forge among themselves a new culture of global leadership based on mutual respect, sensitivity to differences in perspective and to the benefits of un-like-mindedness for international understanding, and a profound commitment to international cooperation as the new modalities for international relations. The G20 Summit has met only twice,



Photo: Lawrence Loni / reutesteam and London Summit

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**FROM THE EXECUTIVE DIRECTOR**



Dear Committee Members and Friends,

A majority of U.S. economist polled this week think the economic turnaround has begun, but unemployment has risen to an alarming rate and is growing. Experts now say Europe will rebound more slowly from the economic crisis in part because their banks have been slower to write-off bad assets. But, as bad as it is in our regions, it cannot compare with the disruption and hardship in most parts of the developing world.

The good news is that the Bretton Woods institutions have responded quickly with innovative programs and new funding, providing backing to governments, banks, trade finance, and programs geared to protect the most vulnerable.

Congress is also involved, giving the Obama Administration rapid authority to commit new resources to the IMF that will enable the Fund to step up its assistance. Congress is also finally ready to authorize a new round of IDA assistance providing concessional assistance to the poorest countries.

In tandem to these developments, your Committee has been active, working with the multilateral institutions to help fine tune new programs and alert the outside community. We have also helped on Capitol Hill by demonstrating support for IMF funding from bipartisan opinion leaders. More detail on all of this follows in this newsletter.

We look forward to your comments and hope to see you at an upcoming event.

Best regards,

James C. Orr  
Executive Director

## After the G20 London Summit

from cover

embracing for the first time in an integral way the four points of the compass. These two summits have been extremely limited in the time that leaders have had together, to interact, to innovate much less institutionalize new modalities which will allow them to reach significant conclusions and to convey them to the public in ways that instill trust and enhance confidence.

Second, the Euro-centric bias of the 20th century institutions, such as the Bretton Woods institutions, and groupings, such as the G8 summits, has to be overcome by highly significant reforms and restructuring of power

**“The major challenge ahead is in giving the global public a sense that a new locus of global leadership has emerged which can assert the public responsibility that was vividly lacking in the financial crisis.”**

or they risk being irrelevant to the non-Western world. Europe in particular needs to come to a new mindset which understands that holding on to power in international institutions with deep transatlantic dominance is to lose power, and to yield power where they dominate now is to gain power by reforming the institutions and by being credible as partners able to confidently share power rather than assert dominion. Without such a change in mindset and in willingness to yield up substantial seats, shares and voting rights, Europe will abort the essential transition of the IMF, the World Bank and global summits to new configurations that include emerging powers as key players.

As it is now, European countries hold eight of the twenty four chairs in the board of executive directors at the IMF and control thirty-three percent of the vote of the IMF board. The United States holds seventeen percent. The Bretton Woods Committee has worked hard to advance IMF reform. Without a substantial shift of ten percentage points or so in IMF voting shares and a shift of at least four chairs in the board held by Europeans to Asia and other emerging market countries, they will not feel ownership in the IMF, that it is their institution also, and that it is a global institution rather than a transatlantic one. Transatlantic preeminence in these institutions must yield to global cooperation.

Third, there is a need to establish a single locus in the international system for global leadership that is continuous through time. The current practice of having G20 summits juxtaposed to G8 summits, both contending for the role of global steering committee, combined with razzle-dazzle efforts by the Italians, for example, to begin the G8 summit in July with the G8 countries only and then move to G8 Plus 5 and then to the G20 and then to include African leaders is to scramble the screens of the global image of leadership in a now-you-see-it, now-you-don't sequence in which no one is sure who is in charge or whether anyone is in charge. Dealing with climate change in a G16 called a Major Emitters Forum (MEF), when in fact all the 16 MEFs are members of

the G20, means the MEF is a distinction without a difference, only further confusing the public. Rather it would be better to use the G20 as the global leadership group for climate change, taking advantage of the fact that all G20 members are also major emitters, thereby establishing continuity of leadership of the G20 from the economic crisis to the climate change crisis. This would reassure the public that there is a single new global leadership grouping capable of addressing both major global challenges together and that there is greater continuity and coherence in approaching these two crises with the same leadership group.

A concerted and deliberate effort to create a new, inclusive global leadership culture, overcoming the Euro-centric and transatlantic biases embedded in the 20th century international system and strengthening a singular, continuous leadership group for addressing major global challenges would be three ways to build a new system for the 21st century. **BWC**



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### IMF Funding Legislation

On May 12, President Obama asked Congress for expedited consideration of IMF funding in the amount of \$108 billion to fulfill his G20 commitment. The President argued that increased IMF support primarily for developing countries was essential to help spur economic recovery from the global financial crisis and economic slowdown. Senate leaders were persuaded and included the IMF funds in a fast-moving war appropriations supplemental measure. However, House Republicans were unenthusiastic about the IMF and other measures. They threatened to vote against the war funding bill if the IMF language was included.

The IMF provisions include an \$8 billion increase in the United States' quota and a \$100 billion expansion of the New Arrangements to Borrow facility (NAB) – a supplementary funding mechanism for the IMF in times of crisis. The administration also requested that Congress authorize the IMF's sale of 12.9 million ounces of gold to pay for the Fund's administrative costs on an ongoing basis, and to provide new concessional resources for poor countries.

The White House persuaded Congressional budget scorekeepers that the \$108 billion for the IMF would only require \$5 billion in budget authority to be set aside, since U.S. support to the IMF is an exchange of assets and not an outlay. The gold sales provisions were also a source of controversy. House Financial Services Chairman Barney Frank used his leverage to ensure that \$5 billion of the sale would be used to finance additional debt relief in low-income countries.



Photo: Susan Serner for the White House

United Republican opposition to the war funding bill could spell its defeat, since Democrats are divided on the war measure -- 51 Democrats opposed it in an earlier vote. The White House and sympathetic House leaders are scrambling now to persuade some Democrats to switch votes and are working on Republican rank and file members to support the final measure.

### International Affairs Budget

President Obama proposed \$53.8 billion – 8% increase – in the International Affairs budget for the 2010 fiscal year. The proposed budget includes increases slated to lead to a doubling of foreign assistance by 2015 and a doubling agricultural assistance to \$1 billion. Congress continues to debate the 2009 supplemental request that would add \$7.15 billion to the current budget. The Senate and House approved \$51 billion for the foreign affairs budget, 3% over last year. Congress is currently debating

a supplemental resolution that would increase the Foreign Affairs supplement to \$10 billion, \$3 billion higher than the administration's request.

### International Development Association (IDA)

For the FY2009 supplemental budget request, President Obama proposed \$3.705 billion for the International Development Association (IDA), and \$486 million for the African Development Fund. Congress must pass this request by June 30, 2009, or the United States will have failed to meet its commitment to the Multilateral Debt Relief Initiative of the World Bank. Congress-

sional leaders have also placed this funding request in the war supplemental currently before Congress. In order to make the funding request more palatable to some members of Congress, the Administration has promised im-

provement in the results measuring system, more effective involvement in post-conflict states such as Afghanistan, better debt sustainability programs and greater institutional transparency. **BWC**

### FY2010 INTERNATIONAL AFFAIRS BUDGET REQUEST: STATUS AND UPDATE

International Affairs 150 Account	
FY 2010 Request	\$ 53.87 billion*
FY 2009 Enacted	\$ 42.65 billion
FY 2009 Pending	\$ 7.15 billion
FY 2009 Total	\$ 49.80 billion
FY 2008 Enacted	\$ 43.21 billion
Increase from FY 2009-2010 Total	\$ 4.07 billion (8.2% increase)
Foreign Operations	
FY 2010 Request	\$ 34.85 billion
FY 2009 Enacted	\$ 27.38 billion
FY 2009 Pending	\$ 4.51 billion
FY 2009 Total	\$ 31.89 billion
FY 2008 Enacted	\$ 27.47 billion
Increase from FY 2009-2010 Total	\$ 2.96 billion (9.3% increase)
State Department Operations & Related Accounts	
FY 2010 Request	\$ 17.05 billion
FY 2009 Enacted	\$ 13.14 billion
FY 2009 Pending	\$ 2.34 billion
FY 2009 Total	\$ 15.48 billion
FY 2008 Enacted	\$ 13.02 billion
Increase from FY 2009-2010 Total	\$ 1.57 billion (10.1% increase)
International Agriculture Programs	
FY 2010 Request	\$ 1.89 billion
FY 2009 Enacted	\$ 1.73 billion
FY 2009 Pending	\$ 0.30 billion
FY 2009 Total	\$ 2.03 billion
FY 2008 Enacted	\$ 2.16 billion
Decrease from FY 2009-2010 Total	-\$ 0.14 billion (6.9% decrease)

\*Source: US Global Leadership Campaign, [http://www.usglc.org/documents/USGLC\\_FY10\\_Budget\\_Update.pdf](http://www.usglc.org/documents/USGLC_FY10_Budget_Update.pdf)

## World Bank

Due to the global financial crisis and economic slowdown, there has been a severe diminution in world trade. Contributing to this trend has been the decline in trade finance and consequently the inability of exporters to obtain loans for shipments of their goods. The World Bank predicts a 6.1% contraction in the volume of trade in 2009. In an effort to stabilize trade flows, the members of the G20 pledged \$250 billion in trade finance over the next two years.

The World Bank, through the new Global Trade Liquidity Program (GTLP), will become a partner in restoring trade finance by contributing \$1 billion with the goal of creating \$50 billion in world trade over the next three years. The GTLP is a partnership among development finance institutions and governments that seeks to inject \$5 to \$10 billion into global and regional banks, with all transactions monitored by the World Bank's International Finance Corporation. In addition to being a part of the GTLP, the World Bank has also pledged to increase trade lending in 2009 to \$3.6 billion (up from \$1.4 billion) and help improve infrastructure and export development in developing countries through its \$40 billion Trade Facilitation Facility program.

On May 29, the Committee organized a Multilateral Roundtable meeting Assuring Adequate Trade Finance for Developing and Emerging Economies, to consider the implication of the trade finance "crisis" on the developing and emerging economies and explore ways in which to address this issue.

One of the areas of the world most affected by the decline in trade finance is the developing and emerging

market countries. World Bank Group President Robert Zoellick presented new data from the World Bank on growth in the developing countries. The report predicted that economic growth in 2009 would fall to 2.1% in these countries, a three point decline from the previous year.

An estimated 53 million people would slip back into poverty, living on less than \$1.25 a day. Central and Eastern Europe, Central Asia, Latin America and the Caribbean would be hit hardest, experiencing an actual decline in growth. Also, the report stated that the world economy would



Photo: World Bank

contract by 1.7% in 2009 compared to a growth of 1.9% in 2008, including a 6% fall in global trade. Based on these alarming trends, President Zoellick urged world leaders to "support and fund safety nets for those most at risk." **BWC**

## IMF

"The IMF is back!" according to IMF Managing Director Dominique Strauss-Kahn. Following the London meeting of the heads of the G20 countries, he praised the group for the \$750 billion it pledged to the IMF. The monetary commitment and support would increase IMF's lending capacity and inject liquidity into international markets. According to the IMF, the economy will recover in 2010 only if sound policies are implemented, including a coordinated fiscal stimulus. Managing Director Strauss-Kahn also remarked that the IMF has taken on a new role as policy advisor and suggested that the

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Photo: World Bank

IMF  
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road to recovery include increased regulation of the financial sector and increased government spending.

The G20 leaders also strengthened the IMF's role as an international lender. On March 24th, the IMF adopted a series of reforms to its concessional and non-concessional lending programs. One of the major initiatives introduced was the Flexible Credit Line (FCL), which provides longer repayment terms, unrestricted renewals and preventative and actual funds for balance of payment needs to countries that have strong economic policies. The program was designed to aid countries who have been hit by the global economic crisis, giving them access to large resources without ongoing conditions. Mexico became the first to utilize the FCL, borrowing \$47 billion, the largest financial agreement in the IMF's history. The IMF have also made changes to the model stand-by arrangement, which remains the main crisis prevention tool for countries that do not qualify for the FCL. In addition, the IMF modernized and simplified cost structures by introducing a time-based surcharge, encouraging members to seek Funds early. **BWC**

## WTO

The World Trade Organization has raised the alarm that the economic crisis could drive countries to adopt protectionist measures. While the WTO does not expect countries to impose major trade barriers, it fears the countries may gradually build up restrictions, which could deepen the economic crisis. Several countries are already adopting higher tariffs, non-tariff barriers and increased trade defense measures in order to save domestic

industries. One such example close to home is the recent "Buy American Provision," which gained momentum in Congress during the difficult economic time. The WTO advised that that in place of reducing aggregate demand by imposing barriers, governments should increase consumer spending, which would jumpstart their economies.

The G20 leaders reaffirmed their commitment to forming a new set of trade negotiations for the Doha Development Agenda. However, their commitment stopped short of setting a new deadline for negotiations or taking definitive steps to ensure its success. While many countries have adopted some form of protectionist policies, the G20 nations pledged \$250 billion in trade finance in support of world trade. WTO Director-General Pascal Lamy stated, "The G20 commitment to provide \$250 billion for trade finance shows the capacity of the international community to address urgent global needs by helping to restore trade as an engine of growth."

The heads of the G20 nations also requested the WTO monitor protectionist policies in an effort to increase transparency and discourage protectionist measures and policies. In support of these efforts, the WTO plans to publish quarterly reports on anti-trade actions by governments to dissuade nations from implementing protectionist policies. These reports will include information on domestic and fiscal policy actions that affect trade.

The G20 nations also agreed to avoid measures inconsistent with WTO policies. The leaders agreed to work towards a successful conclusion to the Doha Development Agenda. They agreed that each party to the negotiation must make concessions in order to achieve these goals. **BWC**



Photo: WTO

### Committee Efforts

## Governance Recommendations to the G20 Working Group

In January 2009, the Committee organized a small working group of experts to provide recommendations to the G20 discussion on improving governance at the multilateral institutions along with other measures to resolve the global financial crisis. Working group participants included World Bank and IMF experts, academics and former government officials. The group ultimately endorsed and sent forward a comprehensive package of suggested reforms to the heads of the G20 countries. A copy of the recommendations can be found on the Resources page of the Committee website.

### IMF Legislation

On May 18, the Bretton Woods Committee released a letter signed by former cabinet secretaries and White

House officials in support of prompt Congressional action of the IMF legislation. The signers included James A. Baker, III, Nicholas F. Brady, Harold Brown, Frank C. Carlucci, Lee H. Hamilton, Henry Kissinger, W. Anthony Lake, Robert McFarlane, Paul H. O'Neil, Henry Paulson, Colin L. Powell, Condoleezza Rice, Robert Rubin, Brent Scowcroft and Paul A. Volcker. The Senate voted to include the IMF funding defeating an attempt to remove IMF provisions from the spending bill. In defending the measure, Senator John Kerry (D-MA) quoted from the letter to high level, bipartisan support for the bill. The Committee circulated the letter to all members of Congress, and it received a good deal of press play after the Treasury Department republished it. **BWC**



## Visit the New BWC Online

We are pleased to announce the launch of the Bretton Woods Committee's new and improved website. The new site features all important documents related to Committee efforts, including recent recommendations given to the heads of the G20 nations and effort to persuade Congress to enact IMF legislation. Members search option has also been installed where current Committee members and other interested individuals may search a member by first or last name basis or by their affiliated company or organization. Please visit our new site at: [www.brettonwoods.org](http://www.brettonwoods.org).

## Committee Meetings Shaping Global Financial Reform

**O**n April 23, 2009, the Bretton Woods Committee, in conjunction with the Boston University's Morin Center for Finance Law held a symposium on Global Financial Reform. The event drew high level speakers and participants and discussion topics included increased regulation and prevention of future crisis. Panelists included: Sheila Bair, Chairman, Federal Deposit Insurance Corporation, Paul Volcker, Chairman, White House Economic Recovery Advisory Board, Andrew Crockett, President, JP Morgan Chase International and Jim Leach, Professor, Woodrow Wilson School, Princeton University and many others.



The symposium began with a discussion focused on the international financial institutions. The panelists praised the heads of the G20 countries for making progress on the effort toward international financial cooperation. The discussion shifted to the topic of domestic financial regulatory action, which has taken priority over the focus on the issue surrounding international regulation. Some of the panelists expressed concern over this trend, which



many viewed as causing a “process of global fragmentation.”

The second panel focused on critical elements of reform in the United States. The panelists presented views from academia, the federal government and corporations. All of the speakers agreed that some consolidation of regula-



tory agencies and regulators was a necessary step towards reform.

The final panel discussed new policies and enhancements for assuring stability. They agreed that the financial crisis was exacerbated by limited market discipline and misaligned incentives.



Photos: Deloitte

During the luncheon, Paul Volcker gave a keynote speech on the role of banks and the reform process. He stressed that the collapse of the markets was a “wakeup call” needing immediate action. He pointed out that financial stability was the starting point from which individual players must act together in order to succeed. **BWC**

# Multilateral Roundtable Meeting: Assuring Adequate Trade Finance for Developing and Emerging Economies

**O**n May 29, the Committee held a Multilateral Roundtable meeting on Assuring Adequate Trade Finance for Developing and Emerging Economies at the IFC headquarters in Washington, DC. Little public attention has focused on the impact of the global financial crisis on trade finance. The WTO estimates the shortage of trade finance to be \$100 billion worldwide. The decline has impacted small to medium sized companies in the developed world and is already impacting growth and development in poor and emerging market countries.

Beset by their own problems including an increased aversion to risk, commercial banks have been reluctant to step into the breach.

Encouraged by the heads of the G-20 nations, the International Finance Corporation of the World Bank recently created a Global Trade Liquidity Program (GTLP) to expand access to

trade finance to importers and exporters in the developing world. The panelists considered the implication of the trade finance crisis on the developed and developing world and ways in which this issue could be remedied.

Panelists included, Georgina Baker, Director, Short Term Finance, Financial Markets Department of the IFC, Carlos de Abreu, Deputy Chief of Mission of the Embassy of Brazil, James C. Cruse, Senior Vice President, Policy & Planning of the Export-Import Bank of the United States, Jean-Francois Lambert, Global Head of Sales & Risk Management, Trade & Supply Chain for HSBC Bank Plc.

Georgina Baker described the IFC's Global Trade Li-

quidity Program, a trade finance initiative, which is made up of 5 to 10 regional banks around the world. According to the IFC, there has been a 6% drop in trade finance due to a decrease in economic activity.

In his presentation, Carlos de Abreu covered the important role of trade in development and economic growth. He emphasized that the world must avoid protectionist measures and work towards the completion of the Doha round. The Brazilian government, he stated, welcomed the decision by the G20 to increase funding for the IMF and IDB.

Jean-Francois Lambert's presentation provided the audience with a greater understanding of the trade finance crisis from a banker's perspective. He pointed out that the fraud levels in trade are the highest ever, while trade is contracting in terms of volumes and values. He felt that current and top issues included risks



and fragility of banks in emerging markets due to lack of funding and access to currency.

James Cruse discussed how south-south trade is more problematic than north-south trade. He felt that the current situation is not as global in scale, but more a short-term regional issue.

The meeting concluded with a lively discussion on whether there really is a significant trade finance crisis and what the implications may be to this issue. **BWC**

For audio recordings of the meetings and transcripts of select speeches, please refer to the Committee website at [www.brettonwoods.org](http://www.brettonwoods.org)

## International Monetary Fund



Photo: IMF

**JOSÉ VIÑALS** On March 25, 2009, Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund named Bank of Spain Deputy Governor José Viñals as Financial Counsellor and Director of the IMF's Monetary and Capital Markets Department. Mr. Viñals succeeds Mr. Jaime Caruana, who was named as General Manager of the Bank for International Settlements

Mr. Viñals, 54, who holds a PhD. in economics from Harvard University, has been Deputy Governor at the Bank of Spain since July 2006. Since joining the central bank in 1984, he has held a number of senior positions and has served on a range of advisory and policy committees at the central bank and within the European Union, including as Chairman of the European Central Bank's International Relations Committee. A former faculty member in the Economics Department at Stanford University, he holds master's in economics from the London School of Economics and from Harvard.

## World Bank: International Finance Corporation



Photo: IFC

**MARCOS BRUJIS** On May 14, 2009, IFC Asset Management Company appointed Marcos Brujis, an investment expert with more than 30 years of experience in emerging markets, as fund manager of a new \$3 billion fund to protect systemically important emerging-market banks from the effects of the global financial crisis.

Mr. Brujis has been IFC's Senior Country Manager for Mexico and Central America since 2007, based in Mexico City. He joined IFC in 2000 as a Principal Investment Officer and was appointed Manager of Financial Markets for Latin America and the Caribbean in 2001. In early 2002, he helped coordinate IFC's response to the Argentine economic crisis. He has also served as a Senior IFC Manager in East Asia, and has managed IFC units focused on developing housing, insurance, and non-bank financial institutions.

He holds an MBA degree from McGill University, Canada. Marcos Brujis is a national of Peru. The new appointment will be effective July 1, 2009.

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