

**„The Intertwining of Security and Economics  
in Transatlantic Politics“**

**Transatlantic Strategy Group on  
Economics, Finance and Trade**

**Chairmen: Caio Koch-Weser and C. Fred Bergsten**

**Discussion Outline and Follow-up Topics**

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## International Finance

*Comments by Roger Ferguson and Mervyn Allister King*

### Mervyn Allister King's comments:

1. The new role of the IMF needs to be defined. What policies should the IMF pursue in future?
2. The IMF and the idea of a 'G2' group have a common problem: What are the appropriate policy instruments?
3. The G7 has almost turned into a G2 since other countries (such as Japan) have become mere commentators, and are no longer key players. China will be an important player in the future.
4. Exchange rates: Hitherto the problem with exchange rates has been that countries are not always willing to surrender their sovereignty.

### Roger Ferguson's comments:

1. Exchange rates: The switch from 'fixed' exchange rates to 'floating' exchange rates has proved to be rather successful.
2. The pound continues to be a successful 'free floater'.
3. The introduction of the euro went quite well: The currency regime seems to have worked well in a non inflationary manner; there are strong cross-border equity flows, due to strong links between U.S. and EU; a fully interlinked and integrated market has emerged.
4. Challenges in the U.S.: New financial engineering product.
5. Policy credibility: Monetary policy is fairly credible, though fiscal policy has proven to be less so.
6. EU regulatory procedures are a source of concern for American companies.
7. The most pressing challenge at the moment is the need to harmonize accounting standards.
8. There is a need for greater transparency within the EU.

### Contributions by group members:

- In a globalized world there is need for a global lender of last resort.
- Reforms are needed, though in general the IMF and the World Bank have done a good job. One major exception is Argentina, where mistakes have definitely been made.
- What should the IMF's agenda be? The world is very different what it was 50 years ago, and so is the role of the IMF.
- The IMF should function as a central bank, and as a lender of last resort.
- Brazil is an example of a country that is being penalized, even though it is doing everything right.
- Many emerging market economies are now doing their homework. However, structural problems stand in the way of successful implementation.
- U.S. - EU relations are friendly, but there should be room here to better address problematic issues.

- The biggest barrier for EU companies trying to gain access to the U.S. market is the accounting system problem. The group should identify specific issues, and try to move from a rule-based system to a more general philosophy.
- Are accounting systems dealing with the real issues?
- Appropriate action should also be taken in regard to anti-trust issues.
- The main obligation of financial institutions will continue to be to pursue national interests.

### **Follow-up Topics:**

1. A solution to accounting systems may be relatively simple: How can we accelerate the convergence of accounting practices?
2. On the issue of financial markets, the group should limit its ideas to specific problems such as accounting standards, IMF reform, and alternatives to G7.

Session II
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## **Corporate Governance**

*Comments by Paul Achleitner and Robert Pozen*

### Mr. Achleitner's comments:

1. Private enterprises were created for the benefit of society. How does society exercise control in the long run once someone has gained legitimacy and is in a position of power? This is where corporate governance comes in.
2. There are two different approaches to corporate governance: a market-driven approach with powerful shareholders, and a more regulatory, more managerial-driven approach.
3. Over the last ten years, the U.S. approach has gained greater acceptance.
4. The discussion should not be about which accounting system is superior, but more about behavioral patterns in the constituencies concerned.

### Mr. Pozen's comments:

1. Corporate governance could be defined as a means for holding management accountable for financial performance.
2. Two proposals that take into account financial performance: Establishing an Audit Committee that aligns the interests of shareholders with the interests of management, and taking a closer look at the design of economic compensation.
3. How should compensation packages for outgoing managers be designed?
4. How can stock options be structured to better align management and shareholder interests?
5. Is the practice of re-pricing ethical?
6. How much should be implemented by law, and how much on the basis of best practices?
7. The objective should be to align compensation with company performance.

8. One big difference between Germany and the rest of the EU is that Germany's system is still based on the stakeholder concept.
9. Independence of the board of directors is vital.
10. Europe can learn certain lessons from the U.S.: Institutional investors are far more active in the U.S. than in Europe.
11. Auditing should not be self-regulating, yet it has become self-regulating.

#### Fred Bergsten's statements:

1. EU - U.S. relations are not as strong as they used to be. In that respect the creation of a Transatlantic Strategy Group on Economics, Finance and Trade is important. The group could make a sizeable difference with two key issues. We can come up with specific proposals on current challenges to the economy, and we can come up with a conceptual framework to improve the way we deal with these issues.
2. In the broad economic sense the U.S. and EU are comparable, but in the political sense they are very different.
3. One idea could be the creation of a 'G2' organized as an informal club with a responsibility to change things.
4. As an informal, yet organized whole, a G2 could supply the political and economic framework for bilateral relations, and provide a basis for a more stable world economy.
5. In order for this to be successful, Europe would have to think about its role in the world economy, and the U.S. would have to step away from its unilateral tendencies, and be prepared to share power.
6. What are the issues such a group could deal with?
7. If the current decline of the dollar halts (and even if the decline does continue at a gradual pace), the U.S. will face resistance on the European side. Exchange rates could cause several financial difficulties between the U.S. and the EU.
8. It is obvious that we could degenerate into a transatlantic trade war. We are lucky to have Bob Zoellick and Pascal Lamy to control things. Unfortunately, they won't be there forever, which is why this is the ideal moment for them to put an agreement in place.
9. The G7 could theoretically be the arena in which these issues could be tackled, but so far it has not proven itself very effective in this respect. The G2 could have a broader set of functions compared to the G7 which has a mandate limited to international finance. Moreover, an informal G2 might work a little better since the 'friends' in the G7 tend to get in the way sometimes.

#### **Follow-up Topics:**

1. Risks involved in a G2 are that we will either stop short, or choose to widen the areas of debate. A G2 should focus on some particular areas.
2. G2 competition policy could also be included in this group discussion.
3. The group should come up with specific proposals on the current challenges to the economy and with a conceptual framework to improve the way we deal with these issues.

4. How can management be held accountable for financial performance?

Session III
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## **International Trade**

*Comments by Pascal Lamy and Bob Zoellick.*

### Pascal Lamy's comments:

1. Are we on the brink of a trade war? The road has been bumpy of late, but we are not at war.  
Trade disputes are not a sign of a dysfunctional relationship.
2. We are dealing with classical trade disputes such as agriculture, and new types of trade disputes involving such issues as science and the environment.
3. There is a real fear that trade policy will be about managing differences, issue by issue, at a very slow pace. Fortunately our bilateral systems are constructed to be able to deal with these situations effectively.
4. Skepticism is called for when considering a new strategic framework such as a G2. It would send a negative message to the rest of the world if the world's two major players were to get together unilaterally and exclude other actors.

### Bob Zoellick's comments:

Although it is important to observe case by case situations, it is also important to step back and look at the big picture. I'm less hesitant than Pascal Lamy about forming a G2-type dialogue between the U.S. and EU. There are five points that are of interest in this respect:

1. the Doha agenda: It would be surprising if the EU were to set the pace;
2. the integration of Russia and China;
3. the integration of developing countries;
4. managing disputes;
5. support at home; U.S. protectionist groups are very strong.

We should be pragmatic and customize. A G2 might not work in the realm of 'use of force', but it might work in the financial world.

Session IV
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## **Environment, Migration and Global Poverty**

*Comments by Dieter Zetsche, Rajat Gupta and Mario Draghi*

### Comments by Dieter Zetsche:

1. There is a correlation between human activity and climate change.
2. Three aspects that the automotive industry focuses on:
  - a. emissions reduction;
  - b. fuel economy improvement;

- c. the problem of expensive oil imports.
3. What can this group do?
  - a. Promote independent projects.
  - b. Work towards a consensus on what direction we should go.
  - c. Harmonize regulatory and legal requirements.

#### Comments by Rajat Gupta:

1. What environmental and energy issues are of concern?
2. Is the development of new energy resources one of them?
3. The role of Russia; the level of Russian oil production has a substantial influence on OPEC's power.
4. The pollution caused by the oil excavation process.
5. Promoting new technologies.

#### Comments by Mario Draghi:

1. Observations about migration in Europe:
  - a. Migration flows to Europe are rising.
  - b. Europeans are increasingly hostile towards immigrants.
  - c. EU immigration policies are ineffective.
  - d. There are generally two types of immigration:
    - i. East to West: This type of immigration is generally considered to be tolerable.
    - ii. South to North: This type of immigration is generally considered to be intolerable.
2. Should there be a Marshall plan for Africa and South Eastern Europe?

#### Contributions by group members:

- Europe is faced with the paradoxical situation that although immigrants are needed by the labor market, it is getting the "wrong" type of immigrant.
- How do we define the skills immigrants should possess?
- Canada could serve as a model, since it focuses clearly on a particular type of immigrant.
- Uncontrolled immigration could also pose a threat to a country's social security system.

#### **Follow-up Topics:**

1. What are the important environmental and energy issues?
2. How can we achieve a consensus with regard to the direction we intend to pursue in the areas of the environment and global poverty?
3. Is exploration of new energy resources a possible direction?
4. Should the U.S. or the EU consider the introduction of temporary immigration based on strict terms and conditions?

### Chairman Caio Koch-Weser - Final Remarks:

What are the next steps for the Transatlantic Strategy Group on Economics, Finance and Trade?

1. There was positive interaction within the group.
2. Different political messages were shared.
3. At the first meeting, the group addressed broadly interrelated issues such as trade, the role of financial institutions such as IMF and World Bank, international finance, and technical questions such as the international convergence of accounting systems.
4. The next step would be to commission papers on specific topics.

### Contributions by group members:

- The group could renew the best practices report.
- An idea would be that the group should concentrate on the creation of a corporate governance and best practice group instead of focusing on too grand a plan such as a G2.
- The group should be more specific in what it wants from a G2. What would its policy instruments be?
- A G2 group could examine questions of financial leadership.
- The group could promote cooperation between the EU and the U.S., but not in a formalized manner such as G2, since this could prove to be counterproductive.
- The group should work more closely with the Transatlantic Strategy Group on Security to look at the relationship between economics and security.
- We could really accomplish something in the following areas: international accounting, auditing and take-overs.
- It is important to maintain the dialogue between the private and public sector.

## Perspectives and Conclusions

### Conclusions by Werner Weidenfeld

How should the follow-up meeting be organized?

1. The Transatlantic Strategy Groups should structure new thoughts and ideas in an intellectually sound manner, and commission specific papers on issues that might become important in future.
2. Furthermore, the chairmen will be asked to help by agreeing to flexible chairmanships.
3. A think-tank group might be a good future goal. It is also extremely important to establish intensive channels of communication.

### Conclusions by Walther Stuetzle:

1. We must keep up the momentum on the information side. This implies that we must reflect on the ideas that were expressed here, and focus on the 'what-if issues'.
2. We must also commission papers on what would happen if NATO fell apart, or what the implications would be if the EU did not live up to its objectives.
3. *Perception* is a very important issue. One example that the group discovered was that many participants are lagging behind with regard to their understanding of current developments in Russia.
4. The *capabilities* of the U.S. and the EU also proved to be an important focal point. Would it be better for the U.S. and the alliance if the EU were to copy the U.S., or would the EU turn out to be a more credible partner if it were merely to focus on its own interests?
5. We need to produce two papers, make them available on the internet, and base a new agenda on them.
6. It is important not to lose sight of the object of this exercise.
7. We must also keep in mind that there will be several events this fall that will substantially shape our thinking.

### Conclusions by Caio Koch-Weser:

1. The group on Economics, Finance and Trade expressed a keen interest in the link between security and economic concerns.
2. It also wishes to arrange joint meetings with the security group next time in order to link the two disciplines.
3. International Finance and Trade: The group displayed an interest in the creation of a G2 - but asks for a clearer definition of what a G2 would focus on.
4. Furthermore, the group is prepared to work on recommendations relating to the reform of financial institutions such as the IMF.
5. The group believes it would be of importance to work in the field of corporate governance, and also in the field of migration.