

# Global Economy and Development

As the Brookings Institution celebrated its 90th anniversary this year, globalization's most pressing issues took center stage—from energy security to trade and competitiveness to pandemic disease and poverty. It was fitting that the Institution marked its anniversary by launching the Global Economy and Development Program, the fifth major program in Brookings history. The new program will play a key role among global actors, with a robust research portfolio examining the rise of new powers, the factors driving the world economy, and the road out of poverty.

In its expansion from Brookings center to program, Global will work with other Brookings research programs to fulfill the Institution's commitment to building an international team that combines breadth and depth across the full spectrum of global policy issues to advance prosperity, security, and political sustainability worldwide.

"Our new program offers compelling recommendations, based on sound research and analysis, in order to materially shape the policy debate on both the opportunities and the challenges created by an increasingly globalized world," said Lael Brainard, vice president and director of the Global program. Brainard, former New Century Chair in International Trade and Economics, holds the Bernard L. Schwartz Chair in International Economics.

"We serve as the go-to source for policy-makers on how to harness the power and potential of globalization," said Brainard, a former deputy national economic adviser.

## The Rise of New Powers

The rise of economic powers such as the "BRICs" (Brazil, Russia, India, and China) is integral to resolving the key challenges of the 21st century, from energy security to trade and financial imbalances to poverty. Global established research projects to address the rising powers' internal challenges, undertake comparative cross-country studies, and analyze broader implications for the world economy and global governance.

In 2006, the India Policy Forum focused on sources of economic growth, trade liberalization, labor-market institutions, poverty reduction, and telecommunications services in the world's second-largest country. The forum represents an ongoing collaboration between Brookings



Lael Brainard, vice president and director of the Global Economy and Development Program, discusses U.S. investments in science and technology with Norman Augustine, retired chairman and CEO of Lockheed Martin, at the Bernard L. Schwartz Forum on Competitiveness.

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scholars and Indian colleagues as they analyze trends in the Indian economy.

Global welcomed the arrival of Wing Thye Woo, an expert on China's economy and professor of economics at the University of California-Davis. In collaboration with the Brookings China Initiative, Global hosted several events to illuminate the economic challenges facing China's policymakers in areas such as rule of law, intellectual property, and corporate governance. On the eve of President Hu Jintao's visit to Washington, Global, the Brookings Center for Northeast Asian Policy Studies, and the China Initiative hosted a discussion on the increasingly complicated economic relationship between the United States and China.

Under the leadership of Senior Fellow Erik Berglöf, Chief Economist of the European Bank for Reconstruction and Development, the Global Institute continues to expand and strengthen its strategic alliance of top-level think tanks in countries such as Russia, China, and India, nurturing young researchers and institutions and promoting important collaborative research and learning.

Scholars Colin Bradford and Johannes Linn continued their multi-year project examining the deficits in current multilateral governance structures. In their policy brief, "Pragmatic Reform of Global Governance: Creating an L20 Summit Forum," the pair argued that the G8 summit excludes the emerging powers of the 21st century and has become increasingly "ineffective, unrepresentative, and illegitimate." Media outlets covered their proposal to expand the group by bringing leading emerging economies such as Brazil, China, India, Mexico, and South Africa to the table.

### The Drivers Shaping the Global Economy

As President Bush made U.S. competitiveness a centerpiece of his agenda, Global addressed America's role in a fast-moving global economy. Finding the right policy responses to ensure that the nation remains competitive and prosperous as new giants enter the global marketplace is a high priority for the program. In April, Brookings launched the Bernard L. Schwartz Forum Series on U.S. Competitiveness in the 21st Century. The discussion on U.S. education, innovation, and R&D strategies featured two keynote addresses given by Susan Hockfield, the president of Massachusetts Institute of Technology, and Bruce Mehlman, former Assistant Secretary of Commerce for Technology Policy under President Bush.

Schwartz believes firmly in "the strengths of the American society and its economy, its ability to transform science into the marketplace, the advantages of its free capital markets, its mobility of labor and capital, its intellectual property, its inventiveness, and its resilience." The forum series will address U.S. trends regarding investments in science and technology, the rise of China and India as emerging exporters, and the future of the U.S. manufacturing industry, and will bring together business executives and entrepreneurs, policy-makers, labor leaders, and academics.

The ongoing Brookings Trade Forum, coordinated by Senior Fellows Susan Collins and Carol Graham, examined the increasing interdependence of global labor markets and the implications of those trends for workers in both developed and developing economies, with a particular focus on migration.



Former Secretary of State Colin Powell addresses the June Leadership Forum of the Brookings Initiative on International Volunteering and Service.

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Global also continued to develop a multidisciplinary research agenda and policy dialogue on the geopolitical and economic ramifications of global energy security needs. Warwick J. McKibbin and Peter J. Wilcoxon, Brookings nonresident senior fellows, used their multi-sector, multi-country modeling capability to develop likely scenarios of the key risks to global energy supplies and their economic consequences (see McKibbin, page 21).

### The Road Out of Poverty

To add depth to its policy work on development effectiveness and global poverty, Brookings formally launched the Wolfensohn Center for Development in July 2006. The new center, directed by Linn, was created with the support of James D. Wolfensohn, the former president of the World Bank and a Brookings trustee since 1983. The center will assess how development interventions can be successfully implemented, scaled up, and sustained to solve key development challenges at the national, regional, and global levels.

Global continued to investigate ways to galvanize private sector development in the war against global poverty. Led by visiting fellow Caroline Moser and in cooperation with the Ford Foundation, Global hosted a conference to discuss asset-based approaches to sustained poverty

reduction. Participants shared the results of recent cutting-edge practice that compared social protection strategies that secure the poor against risks with asset-based strategies that create positive opportunities for the poor to accumulate financial and human capital. In August, the Brookings Blum Roundtable examined the impact of extreme poverty with a diverse group of business, government, and academic leaders, who assembled to promote effective and concrete proposals to address these issues as borders matter less than ever.

Senior Fellow David de Ferranti, former vice president for Latin America of the World Bank, led the Transparency and Accountability Project, which builds the capacity for citizens in poor countries to hold their governments accountable through local think tanks focusing on budget transparency.

Recognizing that private philanthropy, donations from wealthy countries, and public-private partnerships are all funding promising health interventions, de Ferranti also led a series of panel discussions that focused on country-level health reform efforts. The series, which introduced Brookings's new global health initiative, also focused on reviewing and analyzing innovative financing proposals, such as the recent airline tax. Project participants included former President of Ireland Mary Robinson, who

directs the Aspen Institute's Ethical Globalization Initiative, and Dr. Peter Piot, Executive Director of UNAIDS.

With hard-power assets stretched thin and facing 21st century threats from global poverty, pandemics, and terrorism, the United States must deploy its soft power of diplomacy more effectively. To address this problem, a joint task force, convened by the Brookings Institution and the Center for Strategic and International Studies, brought together high-level participants from Congress, the Millennium Challenge Corporation, and influential non-governmental organizations that have consulted with key players for more than a year. Their work and recommendations, published in "Security by Other Means," charted the way toward greater effectiveness, cohesion, and accountability in foreign aid. The task force, led by Brainard, released comprehensive new recommendations designed to reorganize and reprioritize America's foreign aid programs.

The Brookings Initiative on International Volunteering and Service, spearheaded by visiting fellows Lex Rieffel and David Caprara, held its first large-scale working meeting, which brought together both corporate and governmental sponsors of overseas volunteering efforts. During the closing plenary session, former Secretary of State Colin Powell delivered remarks on international service and other "soft power" resources. From personal anecdotes to no-nonsense statistics, Secretary Powell provided a powerful endorsement for the Brookings effort to increase dramatically the number of Americans who volunteer overseas in an effort to use America's soft power more effectively. ■

## McKibbin: Navigating Challenges to the Global Economy

Warwick J. McKibbin, a Brookings non-

resident senior fellow, literally lives and works on the other side of the earth from the Institution's Washington, D.C., headquarters. Yet his impact on global issues such as climate change and infectious disease is felt in the United States as well as in Australia.

McKibbin, an economist at Australia National University in the capital city of Canberra, visits "inside the Beltway" about three times a year when he travels to Brookings for stays of about two weeks, and he keeps in touch through the Internet on a daily basis. He serves on the Board of the Reserve Bank of Australia, a body roughly similar to the Federal Reserve Board in the United States. He is also a member of the Australian Prime Minister's Science Engineering and Innovation Council.

"I like the Australian lifestyle, and my family roots are there," he said, adding, "But nothing can beat being physically at Brookings and interacting with my colleagues."

McKibbin, working with Brookings colleague Peter J. Wilcoxon, has also been the leader of a collaboration between Brookings and the Observer Research Foundation, an India-based think tank. The Brookings-Observer Research Foundation team is developing a new computational tool to analyze that country's economic,



Warwick J. McKibbin discusses the potential impact of a flu pandemic.

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energy, and environment policies. The global general economic equilibrium growth model for India, known as "I-Cubed," is a simulation model that can provide future energy and environmental profiles. The model also can be used to assess a variety of policies such as changing fuel mixes and taxation, and imposing emissions constraints.

McKibbin's wider world view has led to unique solutions to the issue of climate change, where he has argued for market-driven solutions. McKibbin and Wilcoxon, a Brookings nonresident senior fellow and an associate professor at Syracuse University, estimate that the fast-growing economies of China and India already account for roughly 20 percent of the world's carbon emissions.

Therefore, they argue, it is critical to engage these two nations

and other developing countries in a plan to reduce greenhouse gas emissions that will also encourage economic growth.

"Australia is firmly in Asia, and the view of the world from here is quite different than the view from the United States and Europe," said McKibbin, affiliated with both the Global Economy and Development and Economic Studies Programs.

While there is a debate over how much of global warming is due to human activity, "there is enough respected scientific opinion that carbon emissions might be creating a major problem that we need to develop a policy regime that changes the future profile of emissions," he said. Such a policy regime, he argues, should be flexible so that it can be changed as more information becomes available, and

should take into account costs as well as benefits.

McKibbin also pulls no punches on his research on the macroeconomics of infectious diseases. He has concluded that a relatively mild influenza outbreak, similar to Hong Kong flu in 1968, might cause the deaths of 1.4 million people worldwide and economic losses of \$330 billion from reduced productivity. A more severe flu outbreak, such as the 1918 pandemic, could kill 144 million people around the globe and reduce worldwide economic output by \$4.4 trillion.

"The scale of these numbers suggests that investment in preventing another influenza outbreak might be very well spent," said McKibbin, "especially investments in public health systems in developing countries, since that is where another human pandemic is most likely to occur." ■