Challenges, rather than solutions, at summit

Thorny questions are left for Obama after G-20 talks

By Mark Landler

WASHINGTON: Leaders of the Group of 20 nations headed back to their home countries Sunday to continue work on reviving their economies, leaving no clear direction for the thornier questions of overhauling financial regulation that President-elect Barack Obama of the United States will have to address.

While the group put on a strong united front during its summit meeting here Saturday in the face of a global crisis, members delayed any top-level decisions, including far-reaching but hotly debated proposals on overhauling financial regulation, until the 101st day of the incoming Obama administration.

The group planned its next meeting for April 30, months after Obama was scheduled to be sworn into office.

The measures announced by the G-20 on Saturday, though cast as ambitious reforms, mainly reflected steps that the countries were already undertaking to grapple with the crisis. What remains to be seen is whether, working with Obama's new White House, the G-20 leaders will be able to put aside their political and economic differences to embrace more radical changes.

Reaction around the globe varied from studiedly dubious to carefully optimistic. The French daily Le Monde suggested Sunday that the world leaders had settled largely for "declarations of principle," leaving the hard work to their finance ministers.

But The Toronto Star said that the group's most important decision was to meet again: "That signaled that the world has, in effect, elected a new body to oversee the international capitalist economy."

Prime Minister Gordon Brown of Britain, whose country is set to preside over a follow-up meeting of the 20 countries next year, said that the meeting in Washington had provided a "route map" to recovery that would save millions of people around the globe from greater hardship.

"By the actions we take, savings are safe, people will be able to keep their jobs, they will not lose their homes in all of our countries," he said after the summit meeting. "These are extraordinary times and they require extraordinary measures."

Some doubts remained. The mechanics of more coordinated banking regulation have consumed policy makers for years, and further progress will not come easily. Still, most participants portrayed the talks in Washington as an important first step toward greater and more broadly based coordination and harmonization of standards.

Both Brown and Chancellor Angela Merkel of Germany indicated that they

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Meeting showcases new order after crisis

By Sheryl Gay Stolberg and Mark Landler

Ricardo Stuckert/Reuters

President Cristina Fernández de Kirchner of Argentina and President Luiz Inácio Lula da Silva of Brazil were among emerging-market leaders at the meeting in Washington.

WASHINGTON: When President George W. Bush welcomed leaders from around the world to the White House on Friday night, for what might well be one of the last formal dinners of his administration, the topic was the fragile world economy. The lush menu, belying the financial crisis, featured thyme-roasted rack of lamb. But the real story was in the seating chart.

There, in the State Dining Room beneath a huge portrait of Abraham Lincoln, to Bush's right was President Luiz Inácio Lula da Silva of Brazil, who has complained loudly that developing nations like his were being "infected with problems" not of their making. To Bush's left sat a leader with a fat checkbook and the power that comes with it, President Hu Jintao of China.

It was a startling illustration of the way the financial crisis, which originated on Wall Street and has spread around the globe, has remade the international economic world order. By insisting that developing nations be included in the summit meeting, Bush gave fresh clout to their leaders, each of whom arrived in Washington with his or her own agenda.

But it will be up to a new U.S. president, Barack Obama, to figure out how to juggle those competing interests — and quickly.

The declaration adopted by the leaders Saturday calls for a second summit meeting just 101 days after Obama is sworn in. But all around Washington this weekend, as black motorcades sped about town and fancy hotels were marked off with the telltale police barricades, a sure sign that world leaders were in residence, there was evidence of Obama's challenge.

At the elegant Willard InterContinental Hotel, one of the city's finest, President Nicolas Sarkozy of France held court after the conference was over.

Hours earlier, Sarkozy was joking with Bush, giving the president an Obama-style fist bump as the leaders lined up for their official "family photo."

It was Sarkozy who had pressed a reluctant Bush into having the summit meeting in the first place, and at the Willard, he was not shy about claiming credit for it — or proclaiming that the era of American hegemony in world finance was over.

"America is the No. 1 power in the world," Sarkozy declared. "Is it the only power? No, it isn't. We are in a new world."

Over at the tony, private Washington Club, the president of Russia, Dmitri Medvedev, addressed an overflow crowd at the Council on Foreign Relations. Medvedev has been especially combative toward the United States over the economy; in a speech this month, he blamed the Bush administration, saying, "They did not listen to the numerous warnings from their partners, including from us."

But Saturday, the Russian leader's talk had little to do with the economy. He spoke at length about the fragile state of U.S.-Russian relations, and expressed hope that the current chill would thaw under Obama.

Earlier, at the summit meeting at the National Building Museum, there was lively luncheon talk among the leaders

President Bush gave fresh clout to leaders of developing nations.

about free trade and the international trade negotiations known as the Doha Round, which have been all but given up for dead.

President da Silva of Brazil, who had come to the session determined to push for a revival of the trade talks, gave an impassioned speech about what the developing world wants the developed world to do, according to one person who attended.

"We are not asking for assistance; we are not asking for you to give us funds," da Silva said, according to this person, who spoke anonymously so he could give a free account of the remarks. "What we want you to do is to fix your own economies. The best thing you can do for us is to return to growth."

Twenty nations were invited to participate in the meeting, and only two were led by women, neither of whom brought a very strong hand. One of them, Chancellor Angela Merkel of Germany, has become a close ally of Bush, but the German economy has just slipped into recession and its banks are suffering from having purchased a raft of toxic mortgage-related assets from the United States.

The other, President Cristina Fernández de Kirchner of Argentina, is in the economic doghouse with foreign investors, who are pulling their money out of her country after Argentina decided to nationalize $26 billion of private pension funds, raising fears that the government was short on cash.

Kirchner did little to enhance her reputation for competence when she showed up late for the official leaders' photograph Saturday. She missed the first picture, but the leaders regrouped and took another after she arrived. Bush, who prides himself on punctuality, just shrugged.

Photographs were the least of his worries; he arrived at the summit meeting with an agenda of his own, determined to use the session to lay down a few markers on his way out of office. His first message, aimed at Democrats, who are blocking a free trade agreement with Colombia, was that world leaders favor liberal trade rules. Second, he wanted to push back against the notion that free-market capitalism was the root cause of the global meltdown.

On both counts, he seems to have succeeded; the communiqué issued at the meeting's conclusion said the leaders "underscore the critical importance of rejecting protectionism," and it was laden with language about the importance of free markets. When the session was over, Bush emerged to greet reporters, and offer the official handoff to his successor.

"Some of you may not have heard yet," he said wryly, "but I am retiring."

Steven Lee Myers contributed reporting from Washington, and John F. Burns from New York.

Iceland clears way for IMF deal

By David Jolly

Iceland said Sunday that it had agreed to cover European depositors at failed banks, breaking an impasse that had held up the dispersal of billions of dollars in international aid.

The government said in Reykjavik that it would cover deposits of insured depositors, including those in the Icesave accounts of Landsbanki, which it seized in October. It said the EU had agreed "to participate in finding arrangements that will allow Iceland to restore its financial system and economy."

Britain and the Netherlands had refused to back a $2.1 billion loan from the International Monetary Fund unless the depositors were repaid according to EU law, and without the IMF's support, an international rescue package announced Oct. 24 and valued at nearly $6 billion was left in limbo.

"This is a vital step toward rebuilding the Icelandic economy," Kristjan Kristjansson, a spokesman for the government of Prime Minister Geir Haarde, said. The IMF board will vote Wednesday on the bailout, he said, and approval is expected.

The Icelandic currency and the stock market began melting down in September, as the global credit crisis made it impossible for banks and businesses to roll over heavy foreign-currency debts.

Savers in much of Northern Europe deposited money with the local units of Icelandic banks, which offered relatively high interest rates. British charities and local government organizations, for example, had deposited more than £1 billion, or $1.7 billion, in Icelandic banks. Lenders in Austria, Germany, Britain, France and Netherlands have all reported losses on their exposure to the banks.

In addition to Iceland, the IMF recently announced bailout programs for Hungary and Ukraine, and created a credit line of as much as $100 billion for healthy countries with liquidity shortages. On Saturday, it reached an agreement in principle with Pakistan to provide a $7.6 billion stand-by loan, subject to the approval of the IMF executive board.

Responding to the organization's increasing need for funds, Prime Minister Taro Aso of Japan pledged Saturday to increase lending to the IMF by up to $100 billion, and he encouraged other cash-rich countries to do the same.

Obama faces need for quick action

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believed Obama would agree with the central thrust of the measures announced in Washington, and their public comments were mostly upbeat.

Obama did not attend the summit meeting but two of his envoys, the former secretary of state, Madeleine Albright, and a former Republican congressman, James Leach, spent hours huddled with leaders from many of the 20 countries.

Merkel said she did not have "the slightest doubt" about Obama's support for the line taken in Washington. Her foreign policy adviser, Christoph Heusgen, spent two hours with Albright and Leach on Friday, according to German press reports.

The French economy minister, Christine Lagarde, said on France 2 television Sunday that President George W. Bush "told us that he had kept his successor regularly informed and had received his support."

Brown also signaled that he would announce an economic stimulus package for Britain, perhaps early next week, although George Osborne, an opposition spokesman for the Exchequer, said that Brown had failed in an effort to secure global agreement for a fiscal stimulus package.

The finance ministers of Britain, Brazil and South Korea have been charged with the primary responsibility for directing the working groups to draw up regulations aimed at overhauling the world's financial regulatory framework in time for a summit meeting on April 30, probably in London.

Facing the gravest economic crisis in decades, the leaders of the 20 countries agreed Saturday to work together to revive their economies, but they put off thornier decisions about how to overhaul financial regulations.

Though the countries' stimulus packages were cast as ambitious steps, they mainly reflected measures that the countries were already undertaking to respond to the crisis. What remains to be seen is whether, working with a new White House, the leaders will cast aside their political and economic differences to embrace more radical changes, including far-reaching but fiercely debated proposals to revamp regulation.

Julian Jessop, chief international economist for Capital Economics, said that while the summit meeting failed to deliver new stimulus measures, "at least it avoided the knee-jerk responses" like rushed regulation that would have made things worse.

"More importantly, world leaders took the first steps on the reforms of the global financial system necessary to make it less likely that this crisis will happen again," he said.

Obama will find common ground with the leaders in his support of a further stimulus program in the United States — something Bush opposes. The group called for more fiscal measures to cushion the blow of a downturn that is hitting rich and poor countries.

In a five-page communiqué that mixed general principles with specific steps, the G-20 pledged to bolster supervision of banks and credit-rating agencies, scrutinize executive pay and tighten controls on complex derivatives, which deepened the market turmoil.

"Our nations agree that we must make the financial markets more transparent and accountable," Bush said. He warned that "a meeting is not going to solve the world's problems," and described the talks as the beginning of a process that would carry over to the next administration.

With dueling news briefings and statements through the weekend, it was clear that bridging ideological gaps among nations afflicted with different versions of the economic contagion would provide Obama and other world leaders with a daunting challenge.

There is also a more basic philosophical divide across the Atlantic: Europeans in general favor more state control over markets, even to the point of granting regulators cross-border authority, while the United States stresses the primacy of national regulators. President Nicolas Sarkozy of France, who called on Bush to organize the meeting, alluded to those differences, saying the negotiations, even on general principles, had been challenging.

Sarkozy said: "I am a friend of the United States of America, but if you ask, was it easy? No, it wasn't easy." He added that he did not fly to Washington "simply for the pleasure of traveling." He said the Americans had made concessions even by agreeing to discuss issues like regulatory coordination and executive pay. The communiqué, however, suggested there were concessions on both sides.

Prodded by Bush, who earlier in the week gave an impassioned defense of capitalism, the leaders reaffirmed their commitment to free trade. But they also clearly laid blame for the crisis at the doorstep of the United States.

The meeting set out a road map for overhauling regulations in a wide range of areas, and assigned the work to groups of experts. At the next meeting, the leaders will debate specific proposals developed by those groups.

Among those measures is a European proposal to set up so-called colleges of supervisors, to share information about global banks with operations in many countries.

Another idea is to expand the membership of the Financial Stability Forum, an influential group of finance ministers and central bankers from industrialized countries, to include emerging markets like Brazil and China.

Still, for all the talk of action and history-making change, some experts said the outcome was disappointing.

"This is plain-vanilla stuff they could have agreed on without holding a meeting," said Simon Johnson, an economist at the Massachusetts Institute of Technology and a former chief economist of the International Monetary Fund. "What's new, except that this is the G-20 instead of the G-7?"

Brian Knowlton contributed reporting.