

# Issue Objectives for the 2004 Sea Island Summit

G8 Research Group  
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Africa	2
HIV/AIDS	4
Private Sector Development	7
Famine/Food Security	13
Sustainable Development and ICT	15
Weapons of Mass Destruction	17
Terrorism	19
Transport Security	23
Global Economic Growth	24
Regional Security	31
Trade	35
Broader Middle East Initiative	37
International Financial Institution Review	43

# Africa

## Introduction

The African continent has been a priority for many of the G8 leaders since the Genoa Summit in 2001. President George W. Bush has continued with the informal tradition of inviting African leaders to the summit. Heads of state from Algeria, Ghana, Nigeria, Senegal, South Africa, and Uganda will be representing their continent at the 2004 Sea Island Summit. The invitation of these six representatives is an indication that to some extent the G8 Africa Action Plan will be on this year's agenda. In the past, the G8 has made commitments to address poverty, free trade, debt relief, good governance, corruption, and health related crises. At the Sea Island Summit, it is likely that these themes will be addressed within the American context of freedom, prosperity, and security.

### Objective 1: Freedom and Democracy

Those countries in Africa that have embraced a liberal democratic system will be celebrated during the Sea Island Summit. After all, on April of 2004, South Africa celebrated ten years of multi-racial democracy. Although they are relatively new democracies, Senegal and Ghana, are also seen as countries that have been "...governing justly, investing in their people, and promoting economic freedom..."<sup>1</sup> Supporting and encouraging African democracies has been a common theme at international gatherings, such as the bi-annual Commonwealth Heads of Government's meeting entitled, "Development and Democracy: Partnership for Peace and Prosperity."<sup>2</sup>

### Objective 2: Partnership and Prosperity

The G8 Africa Action Plan was founded with the underlying principle of partnership. This year, at Sea Island, the G8 leaders will reiterate their commitment to work closely with the New Partnership for Africa's Development (NEPAD). The G8 Africa Action Plan and NEPAD share the same views and objectives. This makes it easier to work closely in areas including good governance, trade barriers, corruption, and infrastructure. Algeria, Nigeria, Senegal, and South Africa are members of the NEPAD Steering Committee, while Ghana is the current vice-president of the African Union.<sup>3</sup> These African representatives can ensure that there is continuity within policies and commitments.

### Objective 3: Peace and Security

The first step towards development and good governance is peace and security. Initiatives that foster peace, such as the Kofi Annan International Peacekeeping Training Center (KAIPTC), have not only been celebrated, but also heavily funded by the G8 members.<sup>4</sup> KAIPTC was established with the vision to train and study all aspects of peace. Throughout the summit, conflicts in the Middle East and Iraq will take precedent in the agenda. However, it is possible

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<sup>1</sup> Statement by Press Secretary. 18 May, 2004.

[www.whitehouse.gov/news/releases/2004/05/20040518-5.html](http://www.whitehouse.gov/news/releases/2004/05/20040518-5.html) 21 May, 2004.

<sup>2</sup> Aso Rock Commonwealth Declaration on Development and Democracy: Partnership for Peace and Prosperity. 8 December 2003.

[www.humanrightsinitiative.org/cwhr/decdoc/aso\\_rock\\_declaration\\_on\\_dd.pdf](http://www.humanrightsinitiative.org/cwhr/decdoc/aso_rock_declaration_on_dd.pdf)

<sup>3</sup> Statement by Press Secretary.

<sup>4</sup> *Donors to the KAIPTC*. 10 May 2004. [www.kaiptc.org/kaiptc/donors.htm](http://www.kaiptc.org/kaiptc/donors.htm) 15 May 2004.

that conflicts in Sudan, Angola, Somalia, and Northern Uganda will also be discussed. Zimbabwe, Liberia, and Ivory Coast, might also be discussed, as they remain unstable and could possibly be a threat to peace.

The Sea Island Summit will be an opportunity for the G8 countries to discuss the role of the international community in post-conflict reconstruction. The necessary and fundamental role of the United Nations, and peacekeepers in Africa should be highlighted. Initiatives such as Canada's contribution of \$4.5 million dollars over the next three years to ECOWAS, which supports conflict prevention, crisis management and peace building activities, might be duplicated.<sup>5</sup> Commitments to further increase funding towards peacekeeping capabilities might be made.

In the past, President George W. Bush has stated that he is not prepared to "allow terrorists to threaten the people of Africa, or use Africa as a base to threaten the world."<sup>6</sup> The G8 can use the Sea Island Summit to develop, with the African states, an effective counter-terrorist plan. Local and regional African institutions have already set up plans, such as the East Africa Counter-Terrorism Initiative (EACTI), to target terrorism.<sup>7</sup> Pan-Satel Initiative is another plan, led by the US State Department, to combat terrorism by protecting borders, tracking the movement of people, and enhance regional stability.<sup>8</sup> The G8 countries might commit funds to regional plans or establish counter-terrorist training centres.<sup>9</sup> The support of key African leaders, such as Algeria's President Abdelaziz Bouteflika and Nigeria's President Olusegun Obasanjo, could help the implementation of such a plan ran smoothly. An effective plan will include training of personnel, and improvements in communications and infrastructure; but, most importantly, it will also have to address the long-term causes of terrorism and poverty.

Vanessa Corlazzoli  
G8 Research Group

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<sup>5</sup> *Canada helps Africans prevent and resolve violent conflict: News Release*. 9 Mar 2004.  
[www.pm.gc.ca/eng/news.asp?id=109](http://www.pm.gc.ca/eng/news.asp?id=109) 21 May 2004.

<sup>6</sup> *US pledge on Africa terror*. 12 July, 2004. [news.bbc.co.uk/1/hi/world/africa/3060379.stm](http://news.bbc.co.uk/1/hi/world/africa/3060379.stm) 24 May, 2004.

<sup>7</sup> Fisher- Thompson, Jim. *Africa Opposing Terrorism With U.S. Help, Official Tells Congress*. April 5, 2004  
[usembassy.state.gov/nigeria/wwwhp040504a.html](http://usembassy.state.gov/nigeria/wwwhp040504a.html) 24 May 2004.

<sup>8</sup> *Africa Overview*. [www.state.gov/documents/organization/20110.pdf](http://www.state.gov/documents/organization/20110.pdf) 24 May 2004

<sup>9</sup> Kirton, John. *The Road from Rambouillet to the Sea Island Summit Process, Accomplishments and Challenges for the Corporate Community*. 7 May 2004.  
[www.g7.utoronto.ca/scholar/kirton2004/kirton\\_atlanta\\_040507.html](http://www.g7.utoronto.ca/scholar/kirton2004/kirton_atlanta_040507.html) 21 May 2004.

# HIV/AIDS

## Introduction

AIDS has recently become a high profile issue for governments preparing to attend the Sea Island Summit in June. In May, Canadian Prime Minister Paul Martin doubled his country's pledge to the Global Fund to Fight AIDS, Tuberculosis and Malaria, increasing Canada's 2005 donation to CDN \$ 70 million. Canada also committed an additional CDN\$ 35 million to the Global Fund for 2006. In addition, the country also pledged CDN\$ 100 million to support the WHO and UNAIDS' 3 by 5 initiative. This initiative that would treat three million AIDS patients by 2005.<sup>10</sup> On 17 May, the European Union completed its 2004 Global Fund donation of 212 million, donated earlier than expected.<sup>11</sup> Also, on 17 May, U.S. Secretary for Health and Human Services, Tommy Thompson announced that the recently established US AIDS relief program would propose a fast-track system to provide safe, effective drugs to poor countries.<sup>12</sup>

### Objective 1: The Spread of HIV/AIDS Worldwide

Malaria kills more than 1 million people each year, and 2 million people die from Tuberculosis each year despite the existence of inexpensive treatments that can be 95% effective.<sup>13</sup> AIDS has become an important issue in today's world. Since the AIDS virus was first identified, 60 million people have become infected with the disease and 20 million have died.<sup>14</sup> In 2003, 3.2 million new infections occurred in Africa alone, and 2.3 million people died from the disease. Thirty percent of all AIDS patients live in Sub-Saharan Africa, while the region contains approximately two percent of the global population.<sup>15</sup> In addition to the widespread epidemic in Africa, rates of infection have also been increasing in South East Asia as well as in Eastern Europe, particularly in Russia, a G8 member state. The country has one of the highest increasing infection rates in the world: 257,000 official HIV cases and 7,500 of those include children. The Russian Ministry of Health's AIDS Prevention and Treatment Centre indicated these numbers may be higher, anywhere from 700,000 to 1.5 million.<sup>16</sup>

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<sup>10</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, "Canada doubles Global Fund pledge for 2005," 14 May 2004, [www.theglobalfund.org/en/media\\_center/press/pr\\_040514.asp](http://www.theglobalfund.org/en/media_center/press/pr_040514.asp)

<sup>11</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, "EC makes important early completion of its 2004 pledge to Global Fund," 17 May 2004, [www.theglobalfund.org/en/media\\_center/press/pr\\_040517.asp](http://www.theglobalfund.org/en/media_center/press/pr_040517.asp)

<sup>12</sup> Toronto Star, "U.S. eyes faster review of AIDS drugs," May 17, 2004 Pg. A3

<sup>13</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, "Fighting AIDS, TB and Malaria," 2003, [www.theglobalfund.org/en/about/fighting/](http://www.theglobalfund.org/en/about/fighting/)

<sup>14</sup> G8 Research Group, "2003 Evian Interim compliance Report, Health: AIDS/Infectious diseases," February 7, 2004, [www.g8.utoronto.ca/evaluations/2003evian\\_comp\\_interim/08-2003\\_interim\\_health.pdf](http://www.g8.utoronto.ca/evaluations/2003evian_comp_interim/08-2003_interim_health.pdf)

<sup>15</sup> MSNBC.com "AIDS rates hit new highs, U.N. says," November 25, 2003, [msnbc.msn.com/id/3606928/](http://msnbc.msn.com/id/3606928/)

<sup>16</sup> MSNBC.com "HIV rates soaring in Eastern Europe," February 17, 2004, [msnbc.msn.com/id/4286514/](http://msnbc.msn.com/id/4286514/)

## Objective 2: Strengthening the Global Fund

The Global Fund is an initiative between governments and civil society that receives donations and then funds AIDS, Tuberculosis or Malaria initiatives from quality of programs and allows the country in question to implement the program as it sees fit. The Fund therefore does not put new programs into operation. It is a vehicle that provides transparency for donation dollars, and through its website, uses six different languages to allow the public to track the progress of initiatives it has funded.

The G8 was one of the first organizations to become involved with the fund, when members of the G8 committed to supply funds promised to supply funds during the 2001 Genoa Summit in Italy. Many G8 member states, such as the US, Canada, Italy, Japan as well as the European Union have since become world leaders in the fight against these diseases. Numerous G8 states have become leaders in the cause by voluntarily increasing the amount of their donations. Such countries include Japan, who increased their 2004 donation by 150%,<sup>17</sup> and Italy, which has been involved in producing an AIDS vaccine.

The G8 member states will likely discuss donations to the Global Fund as it is in dire need of financial resources. In its first two rounds of grant-making alone, the fund committed US \$ 1.5 billion in funding to support 154 programs in 93 countries worldwide.<sup>18</sup> As of 10 May, the Global Fund projects that it will require us \$3.35 billion in 2005 in order to continue dispersing promised funds to already approved projects.<sup>19</sup> Increased donations are especially important to the Global Fund as it hopes to provide 500 000 people with antiretroviral treatment over the next 5 years.<sup>20</sup> This represents a “near tripling of coverage in poor countries (including a more than six-fold increase in Africa).”<sup>21</sup> The assistance of G8 member states is crucial to the Fund’s success, and the project’s survival will likely be an important issue at Sea Island.

## Objective 3: Drug Accessibility

A substantial barrier to providing AIDS medicines is cost. The average AIDS patient takes drugs that cost \$14 000 US a year.<sup>22</sup> Financing the Global Fund assists in the distribution and increased accessibility of these medicines. In the past, accessibility to such drugs in poorer countries had been impeded due to patent laws preventing the production of generic drugs. However, in 2003, the World Trade Organization introduced the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) which would allow countries to produce generic drugs on their own without infringing on patents, and would allow the poorest countries that do not have the resources to manufacture such drugs to import them with reduced trade barriers. Few richer

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<sup>17</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, “Japan more than Doubles 2004 Pledge to Global Fund,” 12 December, 2003, [www.theglobalfund.org/en/media\\_center/press/pr\\_031212.asp](http://www.theglobalfund.org/en/media_center/press/pr_031212.asp)

<sup>18</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, “How the Fund Works” 2003, [www.theglobalfund.org/en/about/how/](http://www.theglobalfund.org/en/about/how/)

<sup>19</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, “Update on resource needs,” 10 May, 2004, [www.theglobalfund.org/en/files/factsheets/resource\\_needs.pdf](http://www.theglobalfund.org/en/files/factsheets/resource_needs.pdf)

<sup>20</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, “Fighting AIDS, TB and Malaria,” 2003, [www.theglobalfund.org/en/about/fighting/](http://www.theglobalfund.org/en/about/fighting/)

<sup>21</sup> The Global Fund to Fight AIDS, Tuberculosis and Malaria, “The Global Fund Welcomes Moves to Facilitate Wider Use of Fixed-Dose Combination Drugs Against AIDS,” 17 May, 2004, [www.theglobalfund.org/en/media\\_center/press/pr\\_040517b.asp](http://www.theglobalfund.org/en/media_center/press/pr_040517b.asp)

<sup>22</sup> CBSNEWS.com “Anxiety Over Cost Of New AIDS Drug,” 13 March 2003, [www.cbsnews.com/stories/2003/03/13/health/main543887.shtml](http://www.cbsnews.com/stories/2003/03/13/health/main543887.shtml)

countries have changed domestic legislation or implemented the system however, due to the fact that TRIPS's wording is unclear and contains numerous exceptions to the general rules.

In conclusion, the Sea Island Summit may include a discussion on how to more uniformly interpret TRIPS, increase the accessibility of drugs to the poorest countries in need, and provide incentives for pharmaceutical companies to develop cheap AIDS drugs, all of which will ensure increased accessibility to lifesaving medicines.

Mary Gazze  
G8 Research Group

# Private Sector Development

## Introduction

Development is a traditional theme at G7 and G8 summits. At past summits, the attention of the eight leaders has been focused on Africa, especially since the launch of NEPAD at the 2002 Kananaskis Summit. Africa will once again be in the spotlight as the leaders of six African nations have been invited to attend the summit.<sup>23</sup> The G8 leaders, however, will also look to expand the scope of their talks on development, exploring new vehicles and avenues for spurring development in the poorest regions of the world. Part of the motivation for this paradigm shift comes from similar debates over the manner in which the United Nations is pursuing its Millennium Development Goal of halving world poverty by 2015. This report will focus on three main areas of interest within the field of Private Sector Development. All topics have been discussed at various G8 summits over the past year and will be examined again at the 2004 Sea Island Summit in June. First, the Global Remittance Initiative and the manner in which developed countries can make sending money home easier and cheaper for migrant workers. Second, Growth Index Bonds, an issue that is highly controversial within the international financial community but supported by several G8 governments. Third, the Martin-Zedillo Report, which proposes a global framework for Private Sector Development.

## Objective 1: Remittances

Remittances are transfers of currency, usually so-called hard currencies, like the US Dollar or the Euro, from immigrants in developed nations to recipients in the developing world. Although the various forms of remittances are all linked by this basic definition, they differ widely depending on the region of the world involved. The manner in which money is transferred home can range from a simple wire transfer of cash via a wire-transfer service like Western Union to far more complex and established systems like hawala (a form of money transfer not unlike the European bill of acceptance that relies more on trust than formality). Regardless of the type of remittance, however, it has been well documented that currency flows from the developed world to the developing in the form of remittances exceeds Official Development Assistance (ODA) flows.<sup>24</sup>

The topic of remittances will be of prime importance during the Sea Island Summit for two reasons. The first is the rapid growth of remittances originating in the United States. The bulk of these remittances flow to Latin American countries and, in particular, Mexico. Given the Americans' keenness on involving Mexico in the G8's various subsidiary organizations, remittances are an ideal bridge between the Group of Eight and one of Latin America's wealthiest economies. Second, the informality and clandestine nature of some remittance systems have caused great interest in this topic, particularly after the terrorist attacks of September 11, 2001. Since then, the United Nations, as well as other international organizations, have sought to stem the use of remittance systems by terrorist organizations to funnel resources to and from their bases. Particular attention has been focused on the so-called hawala triangle, between Dubai, Pakistan and India.<sup>25</sup>

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<sup>23</sup> Moni Basu, "Africans to Meet With G8 Leaders," *The Atlanta Journal-Constitution*, 19 May 2004, p. 9A.

<sup>24</sup> State Department, "Treasury Official Discusses Importance of Remittances; Bodman Notes Remittances Have From U.S. Have Nearly Doubled Since 1995," 17 May 2004.

<sup>25</sup> Your Dictionary, "Glossary of Current Events," 2003, [www.yourdictionary.com/library/islam.html](http://www.yourdictionary.com/library/islam.html)

Although the government of the United States has made terrorism finance a central theme in its War on Terrorism, its interest in remittances is largely of a development nature. Since 1995, remittances from the United States have grown by nearly 100%. The latest estimate, dating from 2002, places annual remittances to Latin America and the Caribbean from the United States at approximately \$30 billion USD annually, five times ODA to the region and approximately 6.7% of the total annual income of immigrants from the region working in the US.<sup>26</sup> The sheer size of remittances, coupled with the fact that they, unlike ODA, are completely independent of the political process, belies their importance in the development process in many nations. It is precisely for this reason that the United States will seek to make the G7 Global Remittance Initiative a centerpiece at the Sea Island Summit.

The G7 Global Remittance Initiative is modeled on the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB). The MIF has sought to increase migrant workers' trust in financial institutions offering formal remittance services, to broaden the private sector's involvement in the remittance market and to cheapen the cost of remittance services, allowing more of the money earned by immigrants to be sent home. The IDB is also engaged in several programs that provide a more structured approach to the use of remittances in developing nations, such as its housing project in Mexico, which was largely funded by the remittances of immigrants in the United States.<sup>27</sup> The Global Remittance Initiative will draw from this experience and focus primarily on the barriers to cheap and effective remittances. The United States would like the G7 countries to commit to a halving of the cost of remittances worldwide by 2008.<sup>28</sup>

In addition to development goals, the American government would also like to see greater international cooperation in the monitoring of international flows of funds. Although this goal does not appear in press releases about the G7 Global Remittance Initiative, which is focused primarily on development work, security has been a major theme in American efforts to reform financial institutions since the September 11<sup>th</sup> terrorist attacks. Inside the United States, financial institutions and currency exchanges have come under more stringent regulations for identifying and tracking their clientele, particularly those who deal in foreign exchange and international transfers.<sup>29</sup> The United Nations has also taken an active role in this respect, adding Al Qaeda to its blacklist, on which it normally lists sovereign governments, and chastising those nations that have failed to comply with its resolutions and directives on the subject.<sup>30</sup>

The lack of effective monitoring structures for remittances is particularly important, given that money is often transferred through informal means, such as hawala. In the hawala system, a client entrusts a sum of money to a representative in the country of origin in exchange for a token. This token is sent to the end recipient of the money in the country of destination, who will then exchange the token with the representative of the hawala system in the destination country. The secrecy and informality of the entire system implies that any current government regulation

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<sup>26</sup> Inter-American Development Bank, "Latin American Immigrants in the United States to Send Home \$30 billion to Homelands in 2004," 17 May 2004, [www.iadb.org/NEWS/DISPLAY/PRView.cfm?PR\\_Num=98\\_04&Language=English](http://www.iadb.org/NEWS/DISPLAY/PRView.cfm?PR_Num=98_04&Language=English)

<sup>27</sup> State Department, "Treasury Official Discusses Importance of Remittances; Bodman Notes Remittances From U.S. Have Nearly Doubled Since 1995," 17 May 2004.

<sup>28</sup> Ibid.

<sup>29</sup> Bruce Zagaris, "The Merging of Counter-Terrorism and Anti-money Laundering Regimes," *Georgetown University Law Center Fall Law and Policy in International Business* (Fall 2002), p. 45.

<sup>30</sup> BBC News, "Terror funding crackdown 'flawed'," 14 November 2003, [news.bbc.co.uk/1/hi/world/americas/3269849.stm](http://news.bbc.co.uk/1/hi/world/americas/3269849.stm)



aimed at controlling it is often blunt and disruptive, greatly increasing the cost of transferring money to some of the poorest regions of the world.<sup>31</sup>

An indication of the disruption that emergency regulatory measures can cause comes from sanctions imposed on Somali banks in 2001. Al Barakaat Bank was accused by the United States of aiding in the transfer of funds to terrorist organizations.<sup>32</sup> The bank's accounts were subsequently frozen, as were all transfers to the institution. As a result of such measures, 750 000 Somalis were cut off from their primary source of foreign currency.<sup>33</sup> The country, which has not had an effective national government for more than a decade, was completely reliant on the hawala and informal remittance systems for hard currency funds. By cheapening the cost of remittances and increasing migrants' trust in institutionalized, regulated systems of remittance, authorities in the developed world hope to make the fight against terrorism financing less disruptive to the transfer of funds used for economic development.

## **Objective 2: Growth Index Bonds**

The issue of Growth Index Bonds is highly controversial in some circles, although the instruments themselves are neither new nor unsupported. Many development economists have proposed the idea of floating such bonds as a means of aiding transition economies wishing to issue sovereign debt. Traditionally, developing nation governments have issued bonds indexed to their price levels. The purpose of inflation indexed bonds is two-fold: to protect lenders from increases in the price level, which tends to be volatile in developing economies; and to provide a form of incentive for the government to monitor the national price level and combat inflation. Inflation-indexed bonds thus prevent governments from monetizing their budgetary deficits. With vanilla bonds, governments could issue debt and then fund huge gaps in their budgets with rapid increases in the money supply, which would ultimately cause the inflation rate to rise and create a negative real rate of interest on the previously issued sovereign debt. However, with inflation indexing, the real rate remains fairly stable, discouraging the government from inflation taxes and reducing the possibility of hyperinflation.

Growth index bonds seek to provide a middle step for economies where there is little fear of hyperinflation or rampant growth in the money supply but that are still not considered developed. GIBs would be used primarily by governments that have established independent or at least credible monetary authorities and who still have trouble accessing capital markets cheaply and effectively. They also allow for mild inflation to build, which many economists have recognized as necessary to the process of development. The appeal of Growth Index Bonds is the manner in which they apportion risk between bondholders and debtor governments. With inflation indexing, the debtor must provide the same real return to the bondholder regardless of the debtor's economic well-being. Runaway inflation typically occurs in times of economic distress and thus governments with inflation-indexed bonds bear the risk of having to pay greater and greater nominal returns at the same time that they are using resources to combat price level increases. With GIBs, the government's interest payments increase only when economic growth increases. Thus, payments only increase when the government's ability to pay has been strengthened.

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<sup>31</sup> Your Dictionary, "Glossary of Current Events," 2003, [www.yourdictionary.com/library/islam.html](http://www.yourdictionary.com/library/islam.html)

<sup>32</sup> Chris Tomlinson, "Somali banker Accused of Being Al-Qaida Money Man in Legal Limbo Two Years Later," *Associated Press*, 26 October 2003.

<sup>33</sup> Julio Godoy, "Dirty Money Cleaned Here," *Inter Press Service*, 27 February 2004.

Governments are further capable of allowing inflationary pressures caused by both monetary and real factors to build, if that is in the best interests of their economy.<sup>34</sup>

Several developing nations have already issued GIBs or are seriously considering them. While they appear to be theoretically sound, Growth Index Bonds are proving troublesome in some respects. In the case of Bulgaria, which has already issued GIBs, the prime area of concern is in the measurement of GDP. Given the difficulty and inaccuracy of measuring many macroeconomic indicators, one of the main risks that investors in GIBs may face is the uncertainty over how to measure GDP growth for the purposes of interest payments. While some investors believed that Bulgaria's growth would be measured in constant leva, measurements in current leva now imply that Bulgaria could be \$228 million USD in arrears.<sup>35</sup> Nevertheless, proponents of the instruments maintain that every new market has "teething" problems.<sup>36</sup> Currently, Bulgaria, Bosnia-Herzegovina and Costa Rica have issued bonds indexed in some manner to their GDP-growth.<sup>37</sup> Argentina has considered issuing such instruments, but has set 2005 as the earliest possible issue date.<sup>38</sup> As the supply of GIBs increases, a better understanding of the empirical support for the instruments should develop. In the meantime, those economists who support a wider usage of GIBs, such as Borensztein and Mauro, will enjoy the support of several developed country governments, including the United States and Germany.<sup>39</sup>

### **Objective 3: The Martin-Zedillo Report**

In July, 2003, the Secretary General of the United Nations, Kofi Annan, commissioned a report on Private Sector Development. The reporting committee, chaired jointly by Canadian Prime Minister Paul Martin and the former President of Mexico Ernesto Zedillo, focused primarily on the manner in which the private sector, both in the developed world and in developing economies, could participate in the development process.<sup>40</sup> Although many governments remain committed to ODA, the report's goal was to explore alternative means by which the North can help promote the economic development of the South. The report was entitled "Unleashing Entrepreneurship: Making Business Work for the Poor" and concentrated primarily on the means in which Small- and Medium-Sized Enterprises (SMEs) could be engaged in the development process. The three main themes of the report are valuation, information and regulation.

A pillar of the Martin-Zedillo Report is the idea that developing nations' economies contain far more wealth than is immediately apparent. The improper valuation of land and other natural resources often leads to an underestimation of the potential for economic activity in some of the poorest regions of the world. This is further compounded by a lack of efficacy in the transfer of domestic savings from savers to investors in the developing world. By tapping into these currently idle resources, developing economies would be able to begin sustainable, domestically

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<sup>34</sup> Eduardo Borensztein and Paolo Mauro, "Reviving the Case for GDP-Indexed Bonds," *IMF Policy Discussion Paper*, September 2002, pp. 5-7.

<sup>35</sup> Financial Times Business Limited, "Why GDP-indexed Bonds Are Not For the Faint Hearted," 1 May 2004.

<sup>36</sup> Ibid.

<sup>37</sup> Borensztein, "Reviving the Case for GDP-Indexed Bonds," p. 5.

<sup>38</sup> Market News International Inc., "Argentina Looks Ahead to More Debt Talks in May," 19 April 2004.

<sup>39</sup> International Monetary Fund, "Statement by Mr. Hans Eichel, Minister of Finance of the Federal Republic of Germany," *International Monetary and Financial Committee*, 24 April 2004, [www.imf.org/External/spring/2004/imfc/statem/eng/deue.pdf](http://www.imf.org/External/spring/2004/imfc/statem/eng/deue.pdf).

<sup>40</sup> United Nations Development Programme, "Press Release: Unleashing Entrepreneurship: Making Business Work for the Poor," 1 March 2004.

spurred growth. The authors of the report note that SMEs are the largest employers in most economies, both developed and developing, and that they are the enterprises most likely to gain from the exploitation of these hidden national resources, rather than larger firms. A further factor of great importance in the take-off of SME-driven growth is entrepreneurship. Although it is not lacking in most developing nations, entrepreneurship is often impeded by business environments that are not conducive to rapidly growing, small-scale economic activity. One hurdle is a lack of access to capital, due to the difficulty involved in securing loans from traditional financial institutions and the limited scope of micro-financing operations in many developing nations. A second barrier to entrepreneurial activity is a lack of information about finance and basic business skills.

Small businesses around the world are all familiar with the notion of credit. In developing countries, however, SMEs are often unaware of the types of credit and financial instruments offered by the banking and financial industries. While entrepreneurs in the developed world would not hesitate to apply for bank loans collateralized by their personal property or possessions, those in the developing world are either unaware of the concept of collateral or are faced with a banking system so basic and entangled in archaic financial codes as to make collateralized loans impossible. The authors of the Martin-Zedillo Report claim that up to \$9.3 billion USD of land value could be utilized in the developing world to apply for credit, were the poor to have the adequate financial savvy and were they not encumbered by restrictive banking regulations.<sup>41</sup> The development of a collateralized loan market would help increase the share of domestic private investment in the developing world past its average during the 1990's of 10-12% of GDP.<sup>42</sup> This, of course, would require a further change in the role of many developing country governments in the promotion of economic activity and, specifically, market regulation.

The final theme of the Martin-Zedillo Report is that of government regulation, which the authors claim impedes the expansion of private sector activities and stifles private sector involvement in the development process. Entrepreneurs are often overtaxed and over-regulated. They encounter long waiting periods for permits and licenses that are exacerbated by corruption among the officials responsible for business registries. The result is that businesses prefer to remain in the informal sector of the economy. In Egypt, for example, 40% of the working population, or 8 million people, are employed by the informal sector. The underground economy is believed to have a capitalization greater than that of the Cairo Stock Exchange.<sup>43</sup> Although this sector of the economy continues to grow, the inherent illegality of the individual units implies that businesses may not expand and economies of scale are never attained. The clients of these businesses, often the poorest of the poor, must then pay higher prices for goods of variable or inferior quality. The cycle repeats itself and the lowest income bracket of the population suffers. The Martin-Zedillo Report therefore urges both developing and developed country governments to work together with entrepreneurs and other members of civil society to make regulations more efficient, transparent and cost-effective, so that SMEs may continue to grow and employ those who would otherwise remain unemployed or underemployed in the informal sector.

The Canadian International Development Agency (CIDA) has already initiated several projects based upon the Private Sector Development model outlined in Martin-Zedillo Report. In the Philippines, CIDA is involved in a project known as Pearl2 that provides support for Filipino SMEs through Investment Promotion Agencies (IPAs) and Business Support Organizations (BSOs). The goal is to connect entrepreneurs with sources of capital and the knowledge necessary

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<sup>41</sup> Ibid., p.3.

<sup>42</sup> Ibid., p.3.

<sup>43</sup> Ibid., p.3.

to make locally based businesses competitive on a national and international scale.<sup>44</sup> The Canadian government has also sought to include the values of Private Sector Development into its Canada Investment Fund for Africa (CIFA), which is in turn a part of the Canada Fund for Africa (CDA), announced at the 2002 Kananaskis Summit.<sup>45</sup>

The Martin-Zedillo Report and PSD in general, however, are not as widely accepted as may first appear. Critics of the Report note that much of the information presented is not actually new. They claim that the authors are merely repackaging the policies that the World Bank and the International Monetary Fund have expounded for the past two decades. Others point out that Private Sector Development may help to alleviate urban poverty but does little to combat rural poverty, which affects a large portion of the population of the developing world.<sup>46</sup> As well, organizations like the International Monetary Fund, although supportive of an international initiative to make the regulatory environment of developing nations more business friendly, would like developed nations to focus on trade liberalization and completion of the Doha Round. The IMF continues to believe that liberalization in the textile, agricultural and clothing industries is key to the development of many of the world's poorest nations.<sup>47</sup>

Development and poverty reduction will be a key theme at the 2004 Sea Island Summit. Although this is not the first time the two topics will appear on a Summit agenda, the content of the talks will have a profound impact on the involvement of developed nation governments in the development process. Both remittances and the Martin-Zedillo Report are issues that are based on greater private sector initiatives in the development process. They seek to alter the role of government from one of a benefactor, providing funds in the form of ODA, to that of mentor, establishing the regulatory framework and giving the necessary know-how to entrepreneurs and migrant workers to continue the process on their own.

Michael Erdman  
G8 Research Group

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<sup>44</sup> BusinessWorld (Philippines), "CIDA Project Aids National SME Development Plan," 20 May 2004.

<sup>45</sup> Vanguard (Nigeria), "Canada Names Manager for Africa Fund," 17 May 2004.

<sup>46</sup> Paul Weinberg, "Development: Critics Pan UN Private Sector Poverty Plan," *The Toronto Star*, 9 April 2004.

<sup>47</sup> International Monetary Fund, "Development Committee Communiqué," 25 April 2004, [www.imf.org/external/np/cm/2004/042504.htm](http://www.imf.org/external/np/cm/2004/042504.htm)

# Famine/Food Security

## Introduction

The continent of Africa and the persistent famine problem in the region has been on the agenda of the G8 meetings for a number of years. The delegates from Algeria, Ghana, Nigeria, Senegal, South Africa, and Uganda has represented their respected countries at the Sea Island G8 meeting and participated in the extended dialogue on development issues of the African Horn region. The first issue discussed during this meeting between the world leaders addressed famine and the ways to eradicate the food shortage.

Every year millions of people in Africa struggle with malnutrition and starvation. At least 5 million Ethiopians are “chronically food insecure,” not have in an adequate access to food resources and not being able to preserve a sufficient amount of food necessary for survival.

This year at the Summit the leaders once again were brought together in attempt to break the cycle of famine in the Horn Africa. President George W. Bush was determined to further advance on the eradication of famine, as he strongly believes that this problem is solvable. The United States is the world leader in food aid, “ providing more than \$ 1.4 billion in emergency aid and 56 percent of all contributions to the UN’s World Food Program in fiscal year 2003, a year of unusually high emergency food aid needs.” Under the US trade bill, 90 percent of agricultural products from Africa come into the US market duty-free.<sup>48</sup>

G 8 leaders expressed their full support of the New Partnership for Africa’s Development (NEPAD), as well as the goals outlined in the Comprehensive Africa Agriculture Development Programme. Another success of the Summit concerning the issue of famine is the African Union Declaration on Agriculture and Food Security, according to which the leaders of the countries in the Horn of Africa region are committed to allocate the minimum of 10 percent of national budgetary resources for agricultural development. As a strong example of moving from individual effort to joint action, the leaders expressed their commitment to internationally achieve recognized at the Summit action plans, among which is the strategy for the next 11 years to help at least 1 million people every year to break out of the famine cycle.

To carry on significant break through of the Evian Famine Action Plan, the leaders agreed to adopt three additional initiatives within the existing framework:<sup>49</sup>

### 1. Breaking the Cycle of Famine in the Horn of Africa

Along with the World Bank and other donor organizations, the leaders spoke in support of the new Ethiopian Government Framework, as well as a number of the vital land reforms, expansion of rural infrastructure and further development in the sphere of agriculture and accessibility to food.

### 2. Improving Worldwide Emergency Assessment and Response System

Working closely with the World Food Program (WFP), Food and Agriculture

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<sup>48</sup> Office of the Press Secretary, June 10, 2004

<sup>49</sup> [www.g8usa.gov/d\\_061004k.htm](http://www.g8usa.gov/d_061004k.htm), 2004 Summit Documents, Ending The Cycle Of Famine In The Horn Of Africa, Raising Agricultural Productivity, And Promoting Rural Development In Food Insecure Countries

Organization (FAO), and other UN agencies and major international NGOs to do a better job on understanding food emergencies and pressing time frameworks.

### 3. Raising Agricultural Productivity in Food Insecure Countries and Promoting Rural Development, Especially in Africa

In reference to this initiative, the potential of the “second green revolution” has been discussed among the participants. Among the commitments are further development of agricultural science and technology (“hardier crops for healthier people”), strengthening of the local agricultural markets, and meeting international food safety standards.

#### **Conclusion**

Overall, the issue of famine and food security received considerable attention of the G8 leaders throughout the Sea Island Summit. Six African leaders joined the G8 leaders in an extended dialogue on food accessibility. A lot of attention was dedicated to the improvement of the situation in Ethiopia, therefore such points as agricultural reforms and investment in cooperation with the Ethiopian government were on the agenda.

Anna Klishevych  
G8 Research Group

# Sustainable Development and ICT

## Introduction

With the increasing global attention the crusade for sustainable development and ICT is receiving and the amount of focus the issues received at the 2003 G8 Evian Summit, the G8 nations were expected to discuss thoroughly science and technology for sustainable development, global earth observation system of systems (GEOSS) and global warming at the 2004 Sea Island Summit. Though emphasis was placed on sustainable development and ICT with regards to Africa, there was little focus on the other two, equally pressing issues.

### Objective 1: Science and Technology for Sustainable Development

Sustainable development at this year's Summit was emphasized by the G8's support for the New Partnership for Africa's Development (NEPAD) "and the principles and goals set out in the Comprehensive Africa Development Programme."<sup>50</sup> The Union Declaration on Agriculture and Food Security "committed to allocating at least 10% of national budgetary resources for agriculture and rural development."<sup>51</sup> In addition the development goal of cutting the number of people living lives in hunger and poverty in half by 2015 was set at the summit.<sup>52</sup> The Ethiopian Government has, with the help of the G8 nations, created a new framework that will offer the country a chance to "break from [its] cycle of famine."<sup>53</sup> Ethiopia will serve as an example for other nations by reaching the goal of food security by 2009, making land reform by the creation of a land user rights system and expanding rural infrastructure development.<sup>54</sup>

In addition, at the bi-lateral meeting between France's Jacques Chirac and USA's George Bush development assistance with regards to Africa was briefly mentioned yet few details were discussed. As the report from the meeting stated "the two leaders did not come to a firm conclusion, nor did they seek to."<sup>55</sup>

### Objective 2: Global Earth Observation System of Systems (GEOSS)

Despite little coverage in the briefings involving the G8's leaders, there was considerable focus placed on the environment by the US National Oceanic and Atmospheric Administration (NOAA) on June 8, World Oceans Day. In addition to stressing the importance of the global community coming together in an effort to share knowledge and in turn improve social and environmental implications, there was talk of the preliminary report of the US Commission on Ocean Policy to endorse the establishment of an integrated ocean observation system.

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<sup>50</sup> Ending the Cycle of Famine in the Horn of Africa, Raising Agricultural Productivity, and Promoting Rural Development in Food Insecure Countries." [www.g8usa.gov/d\\_061004k.htm](http://www.g8usa.gov/d_061004k.htm)

<sup>51</sup> Ibid

<sup>52</sup> Ibid

<sup>53</sup> Ibid

<sup>54</sup> Ibid

<sup>55</sup> The White House, Office of the Press Secretary, Press Briefing by a Senior Administration Official on the President's Meeting with French President Chirac," Sea Island, June 9, 2004.

### **Objective 3: Global Warming/Climate Change**

Little mention was made of the rising problem of global warming at the 2004 Summit besides Jacques Chirac's open disappointment with President Bush's unwillingness to speak on the matter in detail. In Chirac's press briefing on Tuesday June 9, the French President appeared enthusiastic to discuss sustainable development with the US President the following day.<sup>56</sup> He expressed however in his final press briefing on June 10 that he was disappointed that so little progress had been made on the issue of climate change. Similarly no mention was made of the Kyoto Protocol.

### **Conclusion**

Underlining that the overall theme of the 2004 G8 Sea Island Summit, as described in the Accomplishments at the G8 Summit: Day One, was Iraq, broader Middle-East initiative, poverty, economic growth, proliferation of weapons and counter-terrorism less focus was placed on sustainable development and ICT. Though science and technology for sustainable development was touched upon in relations to Africa, the Summit dedicated little or no time to the issue of GEOSS and Global Warming.

Katrine Hattrem  
G8 Research Group

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<sup>56</sup> Press Briefing by French President Jacques Chirac, Sea Island, June 9 2004.



# Weapons of Mass Destruction

## Introduction

Given continued international concerns regarding the issue of terrorism, the topic of Weapons of Mass Destruction remains high on the priority list and will be discussed at the upcoming summit in Sea Island, Georgia. The discussion surrounding WMDs will in all probability fall into two major categories: Non-proliferation and intelligence sharing. The events of the past year have indicated a need to emphasize these two key components. The general intransigence of North Korea in opening up to IAEA inspections and the alleged ‘flip-flopping’ of the Iranian government on the issue are certainly causes for concern and are indicative of the need to push a non-proliferation program. There have been some positive indicators over the last year — Libya coming clean on their WMD ambitions and the continued thawing of relations between India and Pakistan. Nevertheless, terrorist attacks in Madrid and increased hostility across the Middle East show an increased need for cooperation and coordination to ensure that Weapons of Mass Destruction are kept out of the hands of terrorist organizations.

### Objective 1: Non-proliferation

The BBC, writing on a report issued by the London-based International Institute for Strategic Studies, says that Al-Qaeda for one ‘would ideally like future operations to make use of weapons of mass destruction’.<sup>57</sup> This is a dangerous revelation, particularly given the recent discovery last January of a black market in nuclear weapons, run by the ‘father’ of Pakistan’s nuclear bomb, A. Q. Khan. Indeed US President Bush “responded to the revelations about Khan’s network [that included selling material to North Korea and Iran] with a plan to strengthen international anti-proliferation efforts, including calling on the U.N. Security Council to require all states to criminalize proliferation of components that could be used to make weapons of mass destruction.”<sup>58</sup>

### Objective 2: Intelligence Sharing

Mr. Bush will undoubtedly push these issues at the upcoming Summit, calling for the global community to work together through the UN (with perhaps a discussion on improving the function of the IAEA and an NPT review), G8, and other established institutions to ensure the sharing of intelligence on suspicious nuclear material activity and develop stronger measures of anti-proliferation.

One of these measures is surely to be the continued securing of Russia’s nuclear weapons. According to a report by the CQ Researcher, a division of Congressional Quarterly Inc., “after more than a decade of Nunn-Lugar efforts (also known as the Cooperative Threat Reduction Program of 1993), only half of Russia’s nuclear weapons have been adequately secured.”<sup>59</sup> The G7 countries have already devoted financial aid toward this project, and therefore, further discussion on this point, and a reiteration of the importance of this endeavor, may well be all that can be expected at the summit.

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<sup>57</sup> [news.bbc.co.uk/2/hi/middle\\_east/3746205.stm](http://news.bbc.co.uk/2/hi/middle_east/3746205.stm)

<sup>58</sup> [www.iaea.org/NewsCenter/Focus/cqr\\_proliferation.pdf](http://www.iaea.org/NewsCenter/Focus/cqr_proliferation.pdf)

<sup>59</sup> Ibid.

Kevin Keane  
G8 Research Group

# Terrorism

## Introduction

Fighting terrorism continues to be a prominent issue for the G8 countries at the Sea Island Summit this year. Holding the presidency of the G8 in 2004, the US has designated the Summit themes as “Security, Freedom and Prosperity.” Terrorism is a chief American concern, largely due to the terrorist attacks on September 11, 2001. However, since the recent terrorist bombings in Spain, Turkey and Russia earlier this year, terrorism has become a serious political issue for all the G8 countries, and thus, will be an important focus of the Summit this year.

Particularly since the recent difficulties the US has encountered in Iraq, it seems quite likely that the US will focus on gathering collective support for its ongoing struggle in fighting terrorism at the G8 Summit this year. However, the lack of support the US has received from other G8 country members with respect to sending troops to Iraq has thus far been bleak, suggesting that it will be quite challenging for the US to considerably change this situation at the G8 Summit.<sup>60</sup>

In a meeting on May 11, 2004, the G8 Justice and Home Affairs Ministers reaffirmed their strong commitment to combat terrorism. Throughout the course of their meeting, they identified a comprehensive framework for four different areas: counterterrorism law and policy, integrity of border and transportation security, combating cyber crime and combating corruption.<sup>61</sup>

With respect to law enforcement, the ministers identified three steps in the ongoing fight against terrorism. First, the ministers recognized that the implementation of legal frameworks which allow for effective law enforcement against terrorist action is crucial for all states. The second step involves the use of special investigative techniques, more specifically, the gathering of evidence with the aid of undercover agents, audio and video recording devices. Lastly, the ministers recommended the use of intelligence information in investigative and prosecutorial processes, more specifically with the use of cross-border information sharing. Each step was followed up by a set of practical recommendations which member states may use to execute the prescribed steps. The second area of focus in the meeting involved discussion concerning immigration and terrorist threats, particularly with respect to lost and stolen passports. The members agreed upon increasing global involvement in the database of loss and stolen passports, with the help of Interpol. Thirdly, the meeting touched upon the Internet and its use by terrorists to avoid detection. Enforcement agencies from over 40 countries and strengthening their capabilities was assessed and recommended. Finally, the ministers agreed to fight corruption, especially in the area of recovering national assets seized by dishonest officials. It remained clear that terrorism is a serious global concern which the G8 members strive to take collective responsibility in combating.<sup>62</sup>

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<sup>60</sup> Penttila, Risto E.J. “The G8 and Global Security Governance: Advancing America Interests in Arms Control, Counterterrorism and Regional Security,” DATE OF ACCESS: 28 MAY 2004  
[www.g7.utoronto.ca/conferences/2004/indiana/papers2004/penttila.html](http://www.g7.utoronto.ca/conferences/2004/indiana/papers2004/penttila.html)

<sup>61</sup> “Transcript of the G8 Justice and Home Affairs Ministerial Press Conference,” *United States Department of Justice: Office of the Attorney General* / DATE OF ACCESS: 1 JUN 2004  
[www.justice.gov/ag/events/g82004/Transcript\\_G8\\_Press\\_Conf.pdf](http://www.justice.gov/ag/events/g82004/Transcript_G8_Press_Conf.pdf).

<sup>62</sup> *Ibid.*

## Objective 1: Transport Security

Transport Security and terrorism has been noted by the US hosts as one of four major “deliverables.” With respect to this area, Secure and Facilitated Transportation Initiative (SAFTI) was the chief focus. Concerns such as full airside screening and the forward deployment of immigration and customs personnel were noted. Transport Security became a prominent area of concern after the events of September 11, 2001 and subsequently, was made an official issue at the Kananaskis Summit of 2002. SAFTI was created in imitation of the Secure Trade in the APEC region (STAR) Initiative and launched at the 2002 APEC Summit. STAR involves the economies of APEC in enhancing procedures with respect to screening cargo, both living and non prior to transit, as well as enhancing security on airplanes, sea craft and in airports and seaports.<sup>63</sup> Procedures involved in this initiative include introducing new baggage screening procedures, implementing a universal procedure in checking in passengers, changing immigration service methods, and applying common methods of electronic screening procedures.<sup>64</sup> Although many of SAFTI’s procedures have already been adopted by the US, a potential goal at the Summit this year will be to encourage other G8 country members to do the same.

Another issue identified at the G8 Justice and Home Affairs Ministers meeting was passport reform. The ministers advanced the strengthening of common standards and procedures with respect to blank passports, particularly with the help of Interpol.<sup>65</sup> The ministers asserted that professionals will continue to pursue this issue, more specifically, with greater G8 involvement in Interpol’s database of lost and stolen passports, along with other border security concerns.<sup>66</sup>

As per a 2003 Evian Summit commitment, G8 members agreed to reduce the proliferation of MANPADS. It is likely that this will continue to be a prominent issue at the Sea Island Summit this year. Throughout the year, a strong majority of G8 country members succeeded in adhering to this commitment, particularly US and Russia. Russia’s success is acutely important, as it is among the world’s leading producers of MANPADS, however, the US’s active role in the Wassenaar Arrangement with respect to MANPADS is also noteworthy.<sup>67</sup>

## Objective 2: Intelligence Sharing

It seems likely that the G8 Sea Island Summit will reassert the value of central intelligence sharing with respect to combating terrorism. During the G8 Justice and Home Affairs Ministers meeting on May 11, 2004, the use of National Security Intelligence Information in investigation and prosecution processes was noted as an important feature in the prevention of terrorism. The ministers endorsed the continued enhancement of cross-border intelligence sharing to better prevent terrorist action.<sup>68</sup> In a separate document, Recommendations for Sharing and Protecting

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<sup>63</sup> “Secure Trade in the APEC Region (“STAR”),” *US Department of State* DATE OF ACCESS: 1 JUN 2004 [www.state.gov/p/eap/rls/14701.htm](http://www.state.gov/p/eap/rls/14701.htm).

<sup>64</sup> *Ibid.*

<sup>65</sup> “Communique: Meeting of G8 Justice and Home Affairs Ministers: Washington – May 11, 2004,” *United States Department of Justice: Office of the Attorney General* DATE OF ACCESS: 1 JUN 2004

<sup>66</sup> *Ibid.*

<sup>67</sup> “2003 Evian Interim Compliance Report Transport Security,” *G8 Information Centre* DATE OF ACCESS 1 JUN 2004 [www.g8.utoronto.ca/evaluations/2003evian\\_comp\\_interim/11-2003\\_interim\\_transport.pdf](http://www.g8.utoronto.ca/evaluations/2003evian_comp_interim/11-2003_interim_transport.pdf).

<sup>68</sup> “Communique: Meeting of G8 Justice and Home Affairs Ministers: Washington – May 11, 2004,” *United States Department of Justice: Office of the Attorney General* DATE OF ACCESS: 1 JUN 2004

National Security Intelligence Information in the Investigation and Prosecution of Terrorists and Those who Commit Associated Offences, the ministers asserted the importance of intelligence sharing to combating terrorism and its prominent role as a chief issue during the 2004 Summit.<sup>69</sup> As seen through the release of a separate document, intelligence sharing will be a chief area of concern with respect to terrorism at the G8 Summit at Sea Island.

### **Objective 3: Weapons of Mass Destruction and Terrorism**

During the 2002 G8 Summit in Kananaskis, leaders initiated the G8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction. Under this agreement, member states committed to raising up to \$20 billion US to fund projects in this area. The four main areas identified under the Global Partnership framework are: destruction of chemical weapons, dismantlement of nuclear submarines, nuclear and radiological security, and employment of former weapons scientists.<sup>70</sup>

During the Sea Island Summit, members will have an opportunity to enhance and expound upon this project. As stated by former Senator Sam Nunn, co-chairman of the Nuclear Threat Initiative, a sponsor of the Strengthening the Global Partnership program, the events of September 11, 2001 brought to light that securing dangerous weapons was a global concern that should be addressed. At Sea Island, efforts will be made to connect this concern on a global level, particularly within Russia and Eastern Europe.<sup>71</sup> As well, expansion to include Libya after its agreement to dismantle its Weapons of Mass Destruction program in 2003, and possibly Iran, may be a focus during the summit.<sup>72</sup>

With respect to the US initiative at the Sea Island Summit, a report by Andrew Semmel, Deputy Assistant Secretary for Nuclear Nonproliferation, declared that nonproliferation will be a serious area of concern at the summit this year. Semmel remarked that developing the Global Partnership program will be a leading objective at the Summit. Encouraging other countries, particularly non-G8 countries, to assist in expanding the resources of the Global Partnership Program, will be key.<sup>73</sup>

### **Objective 4: Cyber Terrorism**

During the Justice and Home Affairs Ministers meeting on May 11, 2003, a number of steps were outlined with respect to combating cyber terrorism and increasing the effectiveness of its monitoring. Three major procedures were recommended by the ministers. First, building

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<sup>69</sup> Recommendations for Sharing and Protection National Security Intelligence Information in the Investigation and Prosecution of Terrorists and Those who Commit Associated Offences: Meeting of G8 Justice and Home Affairs Ministers: Washington – May 11, 2004,” *United States Department of Justice: Office of the Attorney General* DATE OF ACCESS: 1 JUN 2004 [www.g8.utoronto.ca/justice/G8justice2004\\_info\\_sharing.pdf](http://www.g8.utoronto.ca/justice/G8justice2004_info_sharing.pdf).

<sup>70</sup> “Overview: Global Partnership Program,” *Canada: Department of Foreign Affairs and International Trade* DATE OF ACCESS: 1 JUN 2004 [www.dfait-maeci.gc.ca/foreign\\_policy/global\\_partnership/menu-en.asp](http://www.dfait-maeci.gc.ca/foreign_policy/global_partnership/menu-en.asp).

<sup>71</sup> “G8 Summit Preview: Statement by Senator Sam Nunn Regarding the Sea Island Summit,” *Strengthening the Global Partnership* DATE OF ACCESS: 1 JUN 2004 [www.nti.org/c\\_press/statement\\_nunng8summit\\_052604.pdf](http://www.nti.org/c_press/statement_nunng8summit_052604.pdf).

<sup>72</sup> “Libyan WMD: Tripoli’s statement in full,” *BBC* DATE OF ACCESS: 1 JUN 2004 [news.bbc.co.uk/1/hi/world/africa/3336139.stm](http://news.bbc.co.uk/1/hi/world/africa/3336139.stm).

<sup>73</sup> “Nonproliferation and Disarmament Cooperation Initiative Conference,” *US Department of State* DATE OF ACCESS: 1 JUN 2004 [www.state.gov/t/np/rls/rm/31034.htm](http://www.state.gov/t/np/rls/rm/31034.htm).

international capacities to combat cyber terrorism was cited. Recommendations included enhancing the existing monitoring system by the G8 countries, which involves a network of constant contact for high-tech crime. Strengthening domestic law was cited as the second recommendation. The ministers determined that encouraging all countries to improve their domestic laws with respect to internet technology was a crucial step in the collective fight against cyber terrorism. Lastly, the ministers endorsed Best Practices for Network Security, Incident Response and Reporting to Law Enforcement, an infrastructure adopted by the UN General Assembly recently which contains the chief elements believed to be involved in protecting information.<sup>74</sup> The Best Practices for Network Security, Incident Response and Reporting to Law Enforcement is a separate document prepared by the G8's subgroup on high-tech crime.<sup>75</sup> Within this document, procedures and processes are outlined to assist those responsible for responding to technological situations. This extensive document details when and exactly how to deal with a situation which threatens domestic or international security. The existence of such an extensive document denotes the focus the ministers have devoted to this issue. This area seems to be one which most of the member countries agree upon, thus, it may become a G8 2004 commitment.

Orsolya Soos  
G8 Research Group

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<sup>74</sup> “Communique: Meeting of G8 Justice and Home Affairs Ministers: Washington – May 11, 2004,” *United States Department of Justice: Office of the Attorney General* DATE OF ACCESS: 1 JUN 2004

[www.usdoj.gov/ag/events/g82004/Communique\\_2004\\_G8\\_JHA\\_Ministerial\\_051204.pdf](http://www.usdoj.gov/ag/events/g82004/Communique_2004_G8_JHA_Ministerial_051204.pdf).

<sup>75</sup> “Best Practices for Network Security, Incident Response and Reporting to Law Enforcement: Meeting of the G8 Justice and Home Affairs Ministers: Washington – May 11, 2004,” *United States Department of Justice: Office of the Attorney General* DATE OF ACCESS: 1 JUN 2004

[www.g8.utoronto.ca/justice/G8justice2004\\_networks.pdf](http://www.g8.utoronto.ca/justice/G8justice2004_networks.pdf).

# Transport Security

## Introduction

Transport security will prove to be a significant issue at Sea Island this June. Given the global security climate — attacks in Riyadh, Madrid; assassinations in Iraq; the general security malaise in Afghanistan; oil shocks and new intelligence which suggests more attacks in the United States are on the horizon- President Bush will push for greater cooperation with respect to transport security.

### Objective 1: Secure and Facilitated Travel Initiative (SAFTI)

The specific item up for talks will be the US backed Secure and Facilitated Travel Initiative (SAFTI). SAFTI picks up and adds on to previous commitments made at both Kananaskis and Evian. More specifically, SAFTI aims to garner further support for, and commitment to, intensive intelligence and data sharing on passengers, crew and cargo.<sup>76</sup> In addition, SAFTI also calls for uniform computer readable travel documents, the forward deployment of immigration and customs personnel, full airside screening, and a reassessment of MANPADS commitments.

Given what seems to be extraordinary demands in comparison to years past (i.e. commitments regarding MANPADS), G8 members have expressed anxiety in the run-up to Sea Island. For these G8 members, there are two broad concerns: cost and privacy.<sup>77</sup> Due to the rigorous nature of SAFTI such as full airside screening of flight crew and service providers each time they enter secure zones, members have identified the difficult trade-offs between security and costs (i.e. the inconvenience to business) involved with implementation. Regarding privacy, some European officials have pointed out that swapping detailed information on passengers to the magnitude and intensity called for by SAFTI invades basic rights to privacy.<sup>78</sup> Considering that one's right to privacy differs significantly from one state to another, one can see the enormous potential for disagreement. In recent weeks, there has been speculation that the United States may go so far as to restrict landing rights within its borders to those states who do not augment their travel security policies to include SAFTI's key provisions.

Given the enormous potential for disagreement, there are still great opportunities for cooperation and success vis-à-vis transport security. Whether the Europeans like it or not, the fact remains that terrorism is literally at their doorstep if not comfortably warming by their hearth. One need only reflect on the train bombings in Madrid to arrive at such a conclusion. Thus, it seems the trade-offs to be made between security and cost on the one hand and privacy on the other, will in the grand scheme of things, prove to be in their favor.

Stefan Kahandaliyanage  
G8 Research Group

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<sup>76</sup> Kirton, John. "The Road from Rambouillet to the Sea Island Summit: Process, Accomplishments and Challenges for the Corporate Community." [www.g7.utoronto.ca/scholar/kirton2004/kirton\\_atlanta\\_040507.html](http://www.g7.utoronto.ca/scholar/kirton2004/kirton_atlanta_040507.html).

<sup>77</sup> Daily Times. "US Pressing Big Powers to Improve Travel Security." [www.dailytimes.com.pk/default.asp?page=story\\_21-2-2004\\_pg4\\_1](http://www.dailytimes.com.pk/default.asp?page=story_21-2-2004_pg4_1).

<sup>78</sup> Ibid.

# Global Economic Growth

## Introduction

Among the G8 nations there remains an interest in the reinvigoration of global economic growth. It has remained an integral issue in the agendas of meetings and ministerials following the Evian summit, and will likely be discussed among other trade and economic related issues. This report seeks to discuss three main areas that relate to global economic growth that were highlighted during the past year, and are likely to be discussed at the Sea Island summit. First, sustaining the current global economic recovery, and the broadening of the dialogue to include more growth locomotives within the G8. Second, managing China and its exchange rate, and third, ensuring that rising G8 interest rates in the future do not unduly inhibit global growth or drive debt-ridden emerging economies into default. This report will also explore current market trends likely to be examined: rising oil prices and the effects of structurally rigid pension and labour cost schemes in the context of burgeoning government fiscal deficits and debt, and expensively aging societies among the G8.

### Objective 1: Sustaining Current Global Economic Recovery

Since the Evian summit, economic growth has been continuously discussed at meetings of the G7 Ministers of Finance. In September 2003, at the Dubai meeting of the G7 Ministers of Finance, an Agenda for Growth was agreed upon. The key objective of the Agenda for Growth is to address supply side impediments to growth by fostering structural policies that increase flexibility and raise productivity growth and employment. Through the adaptation of structural policies, the G7 will address the long term impediments to both productivity and employment, providing for sustainable economic growth in the future.<sup>79</sup>

At the G8 Labor and Employment Ministers Conference in Stuttgart from 14 to 16 December, 2003, the G8 Labor and Employment Ministers stated that economic growth must be both sustained and broad-based in order for the employment situation to improve, as higher levels of employment in turn sustains greater economic growth. The Ministers asserted that an acceleration of structural reforms, investments in research, human resources and infrastructure are required in order to both sustain and broaden the current economic recovery. In order to accomplish this, the Ministers expressed their “determination to undertake labor market reforms, where necessary, to facilitate structural adjustment in our economies, expand sustained economic growth, and promote new employment.” Structural changes in the labour market will be implemented through “stronger networking and integration of various policy fields, in particular finance, economic, and social policies.” Flexibility, as well as inclusiveness, were identified as characteristics which should be strived for in labour markets in an effort to integrate effectively into the competitive international market.<sup>80</sup>

In February, a progress report of the Agenda for Growth was released at the meeting of the G7 Ministers of Finance in Boca Raton, Florida. It outlined the accomplishments achieved since September: “Germany enacted key elements of the reform Agenda 2010, including labor market measures that improve work incentives and further tax reduction. Canada completed the full

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<sup>79</sup>G7 Finance Ministers Meeting. Dubai, 20 September 2003.  
[www.fin.gc.ca/activity/G7/g7200903\\_1e.html](http://www.fin.gc.ca/activity/G7/g7200903_1e.html)

<sup>80</sup>G8 Labor and Employment Ministers Conference: Growth and Employment: The Future of the Working Society in a Changing World. Stuttgart, 14 to 16 December 2003.  
[www.g8.utoronto.ca/labour/labour2003.pdf](http://www.g8.utoronto.ca/labour/labour2003.pdf)



implementation of its five-year, \$100 billion tax reduction plan. Japan formulated a pension reform plan in December 2003 with a view to securing long-term sustainability of the pension system, and is preparing for legislation to implement the reform. France is implementing key provisions of its pension reform law that significantly improves the sustainability of its public finances. The United Kingdom announced new measures to help small business raise finance and to help promote a culture of enterprise, and to improve access to its R&D tax credit. Tax rate cuts in the United States worked their way through the economy to promote record growth. Italy's recent labor market reforms entered fully into force in October, contributing to the further reduction in the unemployment rate."<sup>81</sup>

In addition to reporting on progress already made, the G7 Finance Ministers also announced upcoming reform plans, in turn emphasizing the commitment of the G8 to continued global economic growth. Upcoming reforms were outlined by each country: "The United States plans to spur saving by creating lifetime and retirement savings accounts and reducing the structural budget deficit, and to support job creation by making health care more affordable and pressing for tort reform. In an effort to raise productivity, the United Kingdom is targeting reductions in enterprise regulatory requirements including a collaborative initiative on regulatory reform across the EU over the next two years, establishing a long-term strategy for funding innovation and scientific research, and extended skills training programs. While continuing its steady reduction in the debt-to-GDP ratio, Canada will provide municipalities with the resources needed for infrastructure investment by providing exemptions from the Goods and Services Tax they now pay (worth \$7 billion over the next decade) and examining other fiscal mechanisms to provide further predictable funding. Italy expects to push forward with its pension and corporate tax reform, including tax exemptions on dividends and capital gains, in 2004. France plans to advance health care reforms this year, while continuing to press for fewer labor market constraints. Japan will work on further fiscal expenditure and revenue reforms, including in social security, and will continue to address financial sector reforms. Pension and tax code reform remain key priorities in Germany, in concert with further improvements in the framework for innovation."<sup>82</sup>

Improving current employment levels in the G8 is crucial to sustaining current economic growth, as unemployment has negative effects on economies. At Sea Island, Heads of State and Government ought to focus on aspects of employment creation which remain conducive to productive labour markets in the context of free trade. It is imperative that competitiveness be maintained in order to strengthen the international trading regime espoused by the G8 through the WTO, as this trading regime is considered integral to the maintenance of global economic growth. Thus, any proposal in contradiction to maintaining competitiveness will likely be unsuccessful in deliberation. Taxation and employment would appear to be the most relative approach to sustaining world economic growth, particularly to engage the EU more steadfastly to the initiative, however, this will not likely be the approach pursued at Sea Island. In spring 2004, US Treasury Secretary John Snow began to focus more narrowly on lowering marginal rates of taxation, as well as moving the geographic focus from inside the G8 to the Middle East- with emphasis on Iraq- and Afghanistan. In order to produce deliverables at Sea Island, Heads of State and Government will have to redirect their initiatives towards the Middle East, particularly Iraq and Afghanistan- in order to secure US support. These deliverables will likely be created in

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<sup>81</sup> G7 Finance Ministers Meeting. Agenda for Growth: Progress Report Boca Raton, 6-7 February, 2004. [www.g8.utoronto.ca/finance/fm040207\\_growth.htm](http://www.g8.utoronto.ca/finance/fm040207_growth.htm)

<sup>82</sup> G7 Finance Ministers Meeting. Agenda for Growth: Progress Report Boca Raton, 6-7 February, 2004. [www.g8.utoronto.ca/finance/fm040207\\_growth.htm](http://www.g8.utoronto.ca/finance/fm040207_growth.htm)

conjunction with the IMF and World Bank, as they will be undergoing reforms due to the Strategic Review to make them better suited to contribute to stronger growth.<sup>83</sup>

## **Objective 2: Managing China and its Exchange Rate**

The importance of China as an emerging market power has not been overlooked by the G8. Although East and South Asia suffered from an economic downturn in early 2003 due to the outbreak of SARS, the area has rapidly recovered. China experienced real GDP growth of 9.1 per cent in 2003, propelling East Asia economically, allowing it to remain the world's fastest-growing region. During the financial year of 2003, China received \$1.1 billion USD in loans from the World Bank for six different projects.<sup>84</sup> Economic reforms have prompted China's growth into a major economy that continues to grow; the exchange rate of the yuan, however, has remained pegged against the US dollar at a rate of about 8.28 yuan/dollar for nearly a decade. Any appreciation or depreciation of the yuan against other countries has been by the same amount relative to the USD. The central bank of China has been forced to intervene in the foreign exchange market frequently since the end of 2001 to prevent the yuan from appreciating. Chinese foreign reserves have grown from \$153 billion to over \$360 billion since that time. The central bank of China has been forced to implement sterilization as well as the issuing of central bank paper to restrict monetary base growth, or to prevent the upsurge in foreign exchange reserves from expanding the domestic money supply. Despite these measures, the Chinese money supply continues to swell; according to the US Treasury, M2 climbed 22 per cent over the 12 months ending in August 2003. This is exacerbated by Chinese capital controls which allow inflows to exceed outflows, which also increase foreign exchange reserves, although outflows will likely rise as controls relax and allow Chinese to diversify and search for better returns on international markets; this will also reduce upward pressure on the yuan. It is these restrictions on capital flows that act as the largest barrier to market forces, as well as the weak Chinese banking system.<sup>85</sup>

The involvement of foreign banks in Chinese banks is strictly limited due to Chinese government restrictions on engagement in local-currency business, quantity limitations on lending and the prohibition of taking retail deposits, however, this is beginning to change. In 2004, business conducting using domestic currency will be permitted between foreign banks and Chinese enterprises without geographic constrictions. The Chinese government is aiming to allow foreign banks to achieve local currency business transactions with Chinese individuals with full national treatment by 2007.<sup>86</sup> The Chinese government and central bank have thus made several steps towards preparing its economy and banking system for the switch from the current fixed exchange rate to the floating rate preferred by the international trading regime. Upon the statement made by US Secretary of the Treasury Snow during his trip to Beijing during September 2003 that "the establishment of flexible exchange rates, of a flexible exchange rate regime, would benefit both our nations as well as our regional and global trading partners," the Chinese responded that a market-based flexible exchange rate will be adopted upon the opening

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<sup>83</sup> Statement by US Treasury Secretary John Snow following the G7 Finance Ministers' Meeting in Washington, D.C. April 24, 2004. [www.g7.utoronto.ca/finance/fm040424\\_snow.htm](http://www.g7.utoronto.ca/finance/fm040424_snow.htm)

<sup>84</sup> Department of Finance Canada: Report on Operations Under the Bretton Woods and Related Agreements Act, 2003. [www.fin.gc.ca/bretwood/bretwd03\\_1e.html](http://www.fin.gc.ca/bretwood/bretwd03_1e.html)

<sup>85</sup> US Department of the Treasury, Office of Public Affairs. "China's Exchange Rate Regime and its Effects on the U.S. Economy." John B. Taylor, Under Secretary of Treasury for International Affairs, Testimony before the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology House Committee on Financial Services. JS- 774, October 1, 2003. [www.treas.gov/press/releases/js774.htm](http://www.treas.gov/press/releases/js774.htm)

<sup>86</sup> Bank of Canada: Financial System Review. December 2003, p. 18. [www.bankofcanada.ca/en/fsr/2003/fsr\\_1203.pdf](http://www.bankofcanada.ca/en/fsr/2003/fsr_1203.pdf)

of their capital account. The Chinese also agreed to engage in talks with the G7 regarding economic issues, and have done so, beginning with a meeting between senior officials of the G7 and the Chinese finance ministry and central bank in Dubai.<sup>87</sup>

Chinese attempts at reform will be considered positive steps by the G8. The restructuring of the Chinese bank system must be complete before interest rates in China can be determined by the international market, which is required due to international interest rate equalization. This is the case, as domestic interest rates, adjusted for exchange rate movement, must conform to international interest rates in order to reduce volatility under free capital flows.<sup>88</sup> The impetus to move China to a floating exchange rate system is due to the reach of Chinese exports. As China exports many goods to the G8, maintaining an artificially low currency makes its Chinese exports cheaper than other goods sold at market determined rates. The artificially low Chinese yuan, due to Chinese market power, distorts international trade as Chinese exports can be purchased cheaply in comparison to goods priced in other floating currencies. This issue is likely to be pursued by the US, as it is currently operating a large trade deficit. While this issue is considerable important to the US, it is not a primary issue for Japan as an exporting economy, nor the EU. Canada, however, is also concerned about the appropriate valuation of the yuan, as China is not a member of the G8, this issue will not likely be resolved at the summit; the progress made regarding this issue since the Evian summit has been sufficient, and any additional demands made of China regarding the reconfiguration of its economy will not significantly speed the transition to a floating rate, as the pertinent reforms are already underway.

### **Objective 3: Ensuring that G8 Interest Rates Do Not Inhibit Global Growth**

Higher economic growth has been identified by the G7 as an effective tool in the reduction of poverty around the world. The Agenda for Growth created in 2003 explains that “higher growth through the G7 will redress global imbalances that arise inter alia from uneven growth within the G7.”<sup>89</sup> The G8 has remained committed to development since the Evian summit, in its continued steadfastness in supporting the Doha Development Agenda, despite the failure of the Cancun Ministerial in September, as well as individual member government initiatives to provide both debt relief and aid in general to developing and emerging economies.

Due in part to the threat of rising G8 interest rates in the future among other global economic uncertainties, members of the G8 have undertaken various initiatives to ensure that debt-ridden emerging economies will not be so mired by debt-servicing payments that they will be driven into default, nor hinder global economic growth. A conference was held in the January 2004 to discuss this issue. The Bank of England and the Bank of Canada independently created sovereign debt restructuring proposals that call for strict limits on the assistance provided by international financial institutions to “bail out” troubled debtors, encouraging troubled sovereign debtors and their creditors to negotiate their own terms. This attempt to clarify official financing from international institutions was complemented at the conference by other suggested modifications such as contractual modifications and a dispute resolution forum regarding timely debt

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<sup>87</sup> US Department of the Treasury, Office of Public Affairs. “China’s Exchange Rate Regime and its Effects on the U.S. Economy.” John B. Taylor, Under Secretary of Treasury for International Affairs, Testimony before the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology House Committee on Financial Services. JS- 774, October 1, 2003. [www.treas.gov/press/releases/js774.htm](http://www.treas.gov/press/releases/js774.htm)

<sup>88</sup> Government of Canada. The Chinese Business Collective: Banking in China- Present and Future. [www.dfait-maeci.gc.ca/china/banking\\_report-en.asp](http://www.dfait-maeci.gc.ca/china/banking_report-en.asp)

<sup>89</sup> G7 Finance Ministers Meeting, Dubai, 20 September 2003. [www.fin.gc.ca/activity/G7/g7200903\\_1e.html](http://www.fin.gc.ca/activity/G7/g7200903_1e.html)

repayment. These approaches, however, were contextualized by the “new compact for development” forwarded by US President Bush. This proposal, as described by the Chairman of the Council of Economic Advisers, R. Glenn Hubbard, “increases accountability for rich and poor nations alike by linking greater contributions by developed nations to greater responsibility by developing nations and emerging market economies. More broadly, the Bush Administration believes that policies which facilitate and encourage economic growth in emerging-markets should receive the greatest possible attention from international financial institutions. Proposals to reduce costs of sovereign debt should not be inconsistent with an emphasis on economic growth.” The protection of emerging economies will therefore be assured by the G8 through the encouragement of private sector growth and private capital flows.<sup>90</sup>

This new approach may seem troubling, as it does not deal directly with the prospect of rising interest rates in the G8. It must be understood, however, that old approaches remain in use. For example, the Government of Argentina was able to reset monetary targets established in coordination with the IMF with the signing of Argentina’s January 2003 IMF agreement. The targets initially set were eased as Argentina was under considerable economic pressure due to the appreciation of the peso against the USD.<sup>91</sup> Other forms of insurance against debt default are also implemented, such as direct foreign aid, and debt relief. At the Sea Island summit, a detailed plan should be created which outlines concrete efforts the G8 must take to secure private sector growth and to ensure increased private capital flows to emerging economies burdened with debt. The creation of strong, stable economies in the developing world is a priority for the G8: the EU has vested interests in the development and stabilization of Turkey, while India, China, South Korea, Argentina and Brazil are of interest to the entire G8, particularly the US and Canada, who rely on these countries for exports. This initiative will not realistically be intensely focused upon, however, as the global economic outlook has calmed in regard to the heavily indebted emerging economies. Instead, it is likely that the focus of the G8 nations will remain on the development of more volatile regions, notably Afghanistan, as well as Iraq and the Middle East. The effects of rising interest rates on global economic growth and the ability of emerging economies to repay debts will, therefore, not be a widely discussed issue at Sea Island, but may be included in discussions regarding the Doha Development Agenda under the auspices of trade.

#### **Objective 4: Rising Oil Prices**

In 2004, oil prices have increased substantially. There is concern in the US, which consumes a quarter of the world’s oil- much of which is imported- that prices will remain high.<sup>92</sup> US Energy Secretary Spencer Abraham stated that Saudi Arabia, the world’s largest crude oil producer, had pledged to increase its output by an additional 600 000 barrels a day beginning in June. He also said that Saudi officials would produce up to their full capacity of 10.5 million barrels per day going forward. Despite these efforts to stabilize the market, it appears that an increase in production will not result in a substantial reduction in gas prices. There is also concern that an increase in production will anger Saudi Arabia’s OPEC partners, as Saudi Arabia is unilaterally increasing production after the cartel rejected requests to increase production. Rising oil prices present a serious problem, particularly in the US and Canada where gas prices have remained traditionally low. High gas prices threaten to slow a nation’s economic growth, and make it

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<sup>90</sup> R. Glenn Hubbard. Chairman of the Council of Economic Advisers. Conference on the Sovereign Debt Restructuring Mechanism International Monetary Fund. Washington, D.C., January 22, 2003. [usembassy.state.gov/posts/pk1/www03012305.html](http://usembassy.state.gov/posts/pk1/www03012305.html)

<sup>91</sup> US Embassy, Buenos Aires, Economic Section. Argentina Macroeconomic Report. August, 2003. p. 23. [usembassy.state.gov/buenosaires/wwwfecn1.pdf](http://usembassy.state.gov/buenosaires/wwwfecn1.pdf)

<sup>92</sup> Tim Appenzeller. “The End of Cheap Oil” *National Geographic*, June 2004. p. 80-109.

difficult for central banks to increase interest rates.<sup>93</sup> Rising oil prices will thus be an important consideration at the Sea Island summit. This issue will contribute to the desire of the US to improve the economic and political situation in the Middle East, and will also serve to motivate other countries to acquiesce to US demands in the region in order to secure lower gas prices to protect their economies, as well as the global economy.

### **Objective 5: Structural Rigidities on Pension and Labour Costs**

In the face of burgeoning government fiscal deficits and debt, and expensively aging societies among the G8 nations, pension and labour costs are poised to be another relevant issue in relation to global economic growth. In order to maintain growth, countries must be prepared to deal with the onslaught of pensioners that will require compensation within the next decade. Since the Evian summit, various initiatives have been undertaken which deal with this current issue in the international market. At the G8 Labour and Employment Ministers Conference in Stuttgart in December 2003, the importance of engaging both young and old workers in a streamlined labour system that is both flexible and dynamic was stressed. There was an understanding that the G8 would have to respond to changing demographic realities, resulting in the accommodation of an older work force. Agenda 2003 for Economic Growth also had elements which addressed this issue. The countries of the EU have adopted proactive approaches to this impending difficulty: Germany has enacted labour market measures that improve work incentives and further tax reduction, and is in the process of reforming pension and tax codes; France is implementing key provisions of its pension reform law which will improve the sustainability of its public finances considerably, and is continuing to press for fewer labour market constraints; Italy enacted labor market reforms into force complexly in October, reducing its employment rate, and is currently working on the reform of its pension and corporate tax reform. As well, Japan has reformed its social security expenditures.<sup>94</sup>

This issue could prove to be sensitive for the US, as it could prompt a discussion of America's mounting deficits and current plans for a medium term deficit reduction.<sup>95</sup> This is a stark contrast to the significant efforts being undertaken by Japan and the EU to reduce the structural rigidity of pension and labor costs before strains on their respective social systems become too great. This also contrasts with Canada's balanced budget. This promises to be a contentious issue in the event that it is discussed at the summit; conversation will most likely focus on the economic growth of the Middle East in Sea Island, relegating this issue to ministerials throughout the year, where productive initiatives were created and enacted upon in 2003.

Global economic growth will be an important agenda item at the Sea Island Summit. Commitments reached at the summit will likely be the result of debates surrounding issues related to sustaining global economic growth, and enhancing the growth of emerging industrial economies and developing countries. Geographically, the summit will focus on Iraq, Afghanistan, the Middle East, and Africa. Thus, global economic growth will be directed towards these regions, potentially under the auspices of the Doha Development Agenda and the Africa Action Plan.

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<sup>93</sup> Associated Press. "Stocks Mixed on Promised Oil Output Boost," New York Times. May 24, 2004. [www.nytimes.com/aponline/business/AP-Wall-Street.html](http://www.nytimes.com/aponline/business/AP-Wall-Street.html)

<sup>94</sup> G7 Finance Ministers Meeting. Agenda for Growth: Progress Report Boca Raton, 6-7 February, 2004. [www.g8.utoronto.ca/finance/fm040207\\_growth.htm](http://www.g8.utoronto.ca/finance/fm040207_growth.htm)

<sup>95</sup> John Kirton. "The Road from Rambouillet to the Sea Island Summit: Process, Accomplishments and Challenges to the Corporate Community" Georgia Teach Center for International Business Education and Research, Georgia Tech Hotel and Conference Centre, Atlanta, Georgia. May 7, 2004.

Courtney Brady  
G8 Research Group

# Regional Security

## Introduction

The three most pressing regional security threats that face the world today are North Korea, Iran and Iraq. At the G8 Summit, these threats will probably be dealt with in three ways. The Greater Middle East Initiative will address the security threats that are created by an unstable Middle East. Also, time will be given to discussing threats caused by nuclear-armed rogue states (i.e. Iran and North Korea). The last regional security threat that will be discussed is Iraq.

## Objective 1: The Greater Middle East Initiative

At the Sea Island summit, President Bush will seek support for his Greater Middle East Initiative (GMEI), a plan that he hopes will bring democracy and reform to the Greater Middle East. This is of interest in terms of security because a stable, democratic Middle East would help mitigate such threats in the region. Initially the GMEI plan was to be a strong declaration in support of reform in the Middle East, but the Americans have been forced to soften their approach after the original plan drew criticism from the United Kingdom, other European G8 members and most notably Arab states.<sup>96</sup>

In its current, softer iteration, the GMEI plan has five core parts. These are:

- A Greater Middle East forum for the future: to enable discussions to take place not just between government officials but ordinary citizens
- A democracy assistance group: this would support existing efforts by non-government organizations to foster democratic practices
- A foundation for democracy: a regional version of the US National Foundation for Democracy, which hands out grants to democracy activists worldwide
- A literacy group: to help tackle illiteracy in the region, one of its worst social problems
- A micro-finance project: to fund small businesses, but this is some way from the development bank proposed in the first draft which was seen as too ambitious<sup>97</sup>

Aside from one sentence inserted into a draft to placate the Arab states, the GMEI plan does not deal in with the Israeli/Palestinian conflict, a conflict whose resolution the Arab states view as crucial for long term stability and security in the region.<sup>98</sup> The Americans feared that including the divisive Israel/Palestine conflict on the agenda would lead to an impasse over GMEI at the summit, and have instead decided to tackle mostly economic and political issues with the GMEI plan.<sup>99</sup> Middle East security issues, namely the Israeli/Palestinian conflict, have been transferred

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<sup>96</sup> Paul Reynolds "U.S softens Mid East reform plans" June 04 / 04  
[news.bbc.co.uk/1/hi/world/middle\\_east/3773879.stm](http://news.bbc.co.uk/1/hi/world/middle_east/3773879.stm)

<sup>97</sup> Ibid.

<sup>98</sup> "The Greater Middle East Initiative – 2004 Sea Island Summit Issue Objective"

<sup>99</sup> Ibid.

from GMEI to the separate Middle East Peace Plan (MEPP). Again, to prevent gridlock at the Sea Island summit, the Americans have planned to keep MEPP off of the agenda.<sup>100</sup>

Getting support for the GMEI has proven to be difficult for the United States. Both Saudi Arabia and Egypt have declined invitations to participate in the discussions, and many European Union countries (who launched their own Middle East plan in 1995) have been reluctant to agree to anything that would try to impose democracy on the Middle East.<sup>101</sup> The British, for example, have stated that “[m]uch of any change will have to come from the region. We do not [...] want to impose things.”<sup>102</sup> This resistance has led to a change in the American tone; Washington now speaks more of helping the Middle East develop democracy at its own pace rather than bringing it directly to the region.<sup>103</sup> The American National Security Advisor Condoleezza Rice reflected this change in thinking when she said, at the beginning of June, that “This [meeting with the leaders from Afghanistan, Algeria, Bahrain, Jordan, Turkey and Yemen, all of whom will be at the summit to speak to the G8 member states about the reforms] is an opportunity for the G8 to offer an opening to states in the region to be involved in reform discussions and processes with the G8, but what we’re quite aware of is that most of this is going to take place on the ground in the Middle East, not in the G8.”<sup>104</sup>

The difficulties faced by the United States in Iraq have also made it more difficult for the Americans to raise support for the GMEI initiative. The United States, then, has set a poor precedent, stalling in its first attempt to bring democracy to the region. This will mean, obviously, that ensuring stability and security in Iraq will be a summit priority for the Americans.

## **Objective 2: Weapons of Mass Destruction and Nuclear Proliferation**

A second major regional security concern is the proliferation of weapons of mass destruction (WMD) to so called “rogue states” (i.e. Iran and North Korea) and the possibility that these states will either use them against the international community or pass them on to terrorists. The most direct threat, and the one that is most likely to be discussed at Sea Island, is the possibility that either of these ‘rogue states’ will acquire nuclear weapons. At the summit there will doubtlessly be some movement toward increasing international cooperation to limit the access these states have to the materials required to build nuclear weapons. NSA Rice has stated that “this year’s G8 Summit will focus on advancing freedom by strengthening international cooperation in order to make the world safer and better [including] action against WMD proliferation.”<sup>105</sup> The Proliferation Security Initiative (PSI) of the United States, a strategy to combat the spread of WMDs by increasing interdiction efforts to stop weapons and weapons related material while it is in transit, is just such an initiative, and it will likely be expanded at the summit.<sup>106</sup>

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<sup>100</sup> Marina Ottaway and Thomas Carothers “Policy Brief: The Greater Middle East Initiative: Off to a False Start” Carnegie Endowment for International Peace, 2004.  
[www.ceip.org/files/pdf/policybrief29.pdf](http://www.ceip.org/files/pdf/policybrief29.pdf)

<sup>101</sup> Ibid.

<sup>102</sup> Paul Reynolds “Mid East ‘democracy’ plan raises questions” February 11 / 04  
[news.bbc.co.uk/1/hi/world/middle\\_east/3478901.stm](http://news.bbc.co.uk/1/hi/world/middle_east/3478901.stm)

<sup>103</sup> Ibid.

<sup>104</sup> “Rice Hails Unfolding Political Process in Iraq” June 01 / 04  
[usinfo.state.gov/is/Archive/2004/Jun/02-386864.html](http://usinfo.state.gov/is/Archive/2004/Jun/02-386864.html)

<sup>105</sup> Ibid.

<sup>106</sup> “Proliferation Security Initiative: Statement of Interdiction Principles” September 04 / 03  
[www.state.gov/t/np/rls/fs/23764.htm](http://www.state.gov/t/np/rls/fs/23764.htm)



A second initiative that will likely be further developed at Sea Island is the Global Partnership. The Global Partnership is a product of the 2002 Kananaskis Summit, during which the G8 Leaders announced its creation by proclaiming "The G8 calls on all countries to join them...to prevent terrorists or those that harbour them from acquiring or developing nuclear, chemical, radiological and biological weapons; missiles; and related materials, equipment and technology."<sup>107</sup> The Partnership aims to prevent terrorists from obtaining access to weapons of mass destruction by protecting the facilities where they are stored; accounting for stockpiles; securing weapons; signing treaties to prevent the spread of weapons, weapon materials, and weapon know how; detecting and deterring illegal weapons trafficking; and otherwise preventing the spread of WMD.<sup>108</sup> Starting by securing weapons in Russia, the Partnership has continued to expand since its inception, with G8 nations helping other nations prevent their WMD stockpiles from falling into terrorist hands. Some countries, the United Kingdom for example, want to expand the scope of the program to cover Libya, Iraq, and eventually, the rest of the globe (particularly Libya after its decision to abandon its nuclear program and Iraq after the fall of Hussein) and prevent WMD material and knowledge from leaving these countries.<sup>109</sup> At the Sea Island summit it is likely that the Global Partnership will be expanded, both in terms of countries involved and funds committed, to better meet the threat of the proliferation of WMDs and prevent countries that could become regional security threats, namely North Korea and Iran, from obtaining access to WMDs.

Japan, in particular, may wish to discuss possible regional threats raised by North Korea, and the United States have granted their request for an open session where they may do just that.<sup>110</sup>

## **Objective 2: Iraq**

The final regional security issue that will be discussed at Sea Island, and one that will no doubt receive a great deal of media attention, is Iraq. As long as Iraq remains unstable, it is a security threat and an obstacle for stability in the Greater Middle East (and support for the GMEI). Presently, there is not a great deal of political will on the parts of some of the G8 member states to provide aid toward American reform efforts in Iraq. At the May 2004 G8 Foreign Minister's meeting, held in preparation for the lead up to the Sea Island summit, an American initiative to obtain the support of other member states for the U.S reconstruction of Iraq was rejected by Canada, France, Russia and Germany, all of whom refused to provide military assistance.<sup>111</sup> Some observers predict that this lack of unity means there will not be a major breakthrough at the summit on the issue of Iraq.<sup>112</sup> Either way, it is clear that Bush will most likely try to link Iraq to the GMEI by making a democratic Iraq a springboard for a democratic Middle East.<sup>113</sup>

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<sup>107</sup> "Strengthening the Global Partnership, Protecting Against the Spread of Nuclear, Biological and Chemical Weapons" [www.sgpproject.org](http://www.sgpproject.org)

<sup>108</sup> Mary Beth Nikitin "Global Partnership Basics" August 2003.  
[www.sgpproject.org/resources/GPbasics.html](http://www.sgpproject.org/resources/GPbasics.html)

<sup>109</sup> "Countering the Proliferation of Weapons of Mass Destruction; Written Ministerial Statement by Foreign Secretary Jack Straw" 25<sup>th</sup> February, 2004.  
[www.fc.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1077043155337](http://www.fc.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1077043155337)

<sup>110</sup> John Kirton, "Prospects for the G8 Sea Island Summit - Draft" May 31 / 04  
[www.g8.utoronto.ca/conferences/2004/indiana/papers2004/kirton\\_bloomington\\_040530.pdf](http://www.g8.utoronto.ca/conferences/2004/indiana/papers2004/kirton_bloomington_040530.pdf)

<sup>111</sup> Risto E. J. Penttilä, "The G8 and Global Security Governance: Advancing American Interests in Arms Control, Counterterrorism and Regional Security" May 28 / 04  
[www.g8.utoronto.ca/conferences/2004/indiana/papers2004/penttila.html#n7](http://www.g8.utoronto.ca/conferences/2004/indiana/papers2004/penttila.html#n7)

<sup>112</sup> Ibid.

<sup>113</sup> Paul Reynolds "Mid East 'democracy' plan raises questions" February 11 / 04

Christopher Collins  
G8 Research Group

# Trade

## Introduction

At the upcoming G8 Summit in Sea Island, Georgia, it is likely that international trade will be included among the general priorities to be outlined by the leaders of the G8 nations under the heading of “prosperity.” Ultimately, though, the international trade agenda will almost certainly play a secondary role to the larger debates surrounding issues related to the “security” agenda. The discourse on trade will, however, include a reaffirmation of support for progress toward the Agenda for Growth and the achievement of the Doha Development Agenda round of trade talks of the World Trade Organization (WTO). Furthermore, in light of recent and drastic increases in oil prices, as well as the refusal of many oil-producing nations to increase production in order to return prices to more moderate levels, concerns over present levels of oil production will play a significant part in the “prosperity” round of talks at the summit.

### Objective 1: Agenda for Growth

At the meeting of the G7 Finance Ministers that was held on 23 May 2004 the Ministers reiterated their desire to advance the Agenda for Growth initiative reached in September 2003 with the intention of enhancing productivity, creating more jobs and resulting in higher and more sustainable levels of growth worldwide.<sup>114</sup> Policies aimed at the liberalization of trade, including the implementation of labour market reforms, the reduction of regulatory and legal barriers to trade and increased support for entrepreneurship are, therefore, likely to also be among the issues under discussion during the trade component of the “prosperity” round.

In essence the Agenda for Growth represents a multilateral approach to trade that emphasizes the links between the Growth Agenda and the successful conclusion of the Doha Development round scheduled for 2005. The Agenda encourages the pursuit of greater transparency and the more effective exchange of information between countries. At the time of the creation of the Growth Agenda the Finance Ministers also communicated their support for the progress made by Brazil, Turkey and Argentina in implementing structural reforms and collaborating with the IMF to adopt sound economic trade policies. The Ministers stated that these would “be the key to restore strong and long-lasting economic growth and investment climate.”<sup>115</sup>

### Objective 2: Doha Development Agenda

The continued support for trade liberalization as a critical step toward improving the current state of the global economy also coincides with the goal of achieving higher levels of economic growth worldwide and the commitment of the G8 nations toward achieving the January 2005 deadline for the Doha Development Agenda. At a meeting of the Finance Ministers held on 7 February 2004 the Ministers stated that “international trade is vital; we call for further efforts and countries to take the steps to resume the Doha Round, which is pivotal to global growth and the alleviation of world poverty.”<sup>116</sup> This is indicative of the kind of commitments that one can expect to be reached at Sea Island regarding the Doha Agenda after discussions concerning the conclusion of the agenda were stalled in September 2003 at the Cancun Ministerial.

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<sup>114</sup> “Statement by G7 Finance Ministers,” [www.g8.utoronto.ca/finance/fm040523\\_statement.htm](http://www.g8.utoronto.ca/finance/fm040523_statement.htm)

<sup>115</sup> “Statement of G7 Ministers and Central Bank Governors,” [www.g8.utoronto.ca/finance/fm040207.htm](http://www.g8.utoronto.ca/finance/fm040207.htm)

<sup>116</sup> Ibid.

Recently, the goal of achieving remittance flows in the amount of \$100 billion per year in order to support families and enable the financing of small businesses in less developed countries, as well as a declaration of the essentialness of entrepreneurship in fostering development were highlighted as vital components in achieving a successful conclusion to the Doha round.<sup>117</sup>

Indeed throughout the second half of 2003 and first six months of 2004, the leaders of the G8 nations have continued to verbally communicate their support of small business efforts to become competitive in the world market. MDBs have been encouraged to work closely with bilateral donors and developing countries in order to develop strategies aimed at removing the legal and regulatory barriers to increased international investment and trade.<sup>118</sup> Over the last twelve months initiatives have been adopted under the trade agenda that are targeted, first and foremost, at particular regions of the world, specifically the Middle East and Northern Africa, where efforts aimed at improving the investment and trade climate also coincide with goals of strengthening regional and global security.

### **Objective 3: World Production and Prices of Oil**

Recent rapid increases in oil prices on a global scale can be expected to lead to a dialogue concerning the necessity of lowering oil prices through increased production in order to foster continued economic growth. Although the Saudi government recently pledged to increase production and distribution of oil in early June the leaders of the G8 nations will continue to call upon other oil producers to increase production and supply adequate higher quantities of oil at lower prices, as fears persist that prices will remain high.<sup>119</sup> This will be undertaken with the intention of ensuring that prices return to levels in which longer-term economic stability and growth can be achieved, particularly among developing nations. At a meeting of the Finance Ministers in May this was made evident in a declaration that began; “We welcome the recent announcements by some oil producers to increase production. We now call on all oil producers to provide adequate supplies to ensure that world oil prices return to levels consistent with lasting global economic prosperity and stability.”<sup>120</sup>

Encouraging greater trade liberalization and widening the free trade market with the intention of fostering greater economic growth through trade will likely be a component of the “prosperity” agenda at the summit. A stronger and more stable world economy will provide the leaders of the G8 nations with an important opportunity to work toward the achievement of the Agenda for Growth initiative as well as the conclusion of the Doha Development Agenda. However, at the same time that support for the Doha agenda will be reiterated, the G8 leaders will continue to focus predominantly on oil production and the increasing prices of oil to a greater extent than the Doha Agenda will be addressed. It is also probable that, in the end, the entire trade agenda will take a decisive ‘back-seat’ to the overriding concerns surrounding the “security” component of the summit, as issue areas such as Counter-Terrorism, Iraq and the Middle East Peace Initiative are expected to comprise the largest majority of the summit agenda.

Janel Smith  
G8 Research Group

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<sup>117</sup> “Statement by G7 Finance Ministers,” [www.g8.utoronto.ca/finance/fm040523\\_statement.htm](http://www.g8.utoronto.ca/finance/fm040523_statement.htm)

<sup>118</sup> Ibid.

<sup>119</sup> Tim Appenzeller. “The End of Cheap Oil,” *National Geographic*, June 2004. p. 80-109.

<sup>120</sup> “Statement by G7 Finance Ministers,” [www.g8.utoronto.ca/finance/fm040523\\_statement.htm](http://www.g8.utoronto.ca/finance/fm040523_statement.htm)

# Broader Middle East Initiative

## Introduction

The Greater Middle East Initiative (GMEI) refers to a broad-based policy initiative forwarded by the US Bush Administration to promote greater democratic governance and economic renewal in the countries stretching from Morocco to Pakistan — the heart of the global Muslim world. The initiative is intentionally modeled as a contemporary counterpart to the 1972 Conference on Security and Cooperation in Europe (CSCE) — better known as the Helsinki Accords. Those accords resulted in a commitment by the US, the Soviet Union and over 30 other countries to afford greater respect for human rights and democracy within their borders and are now identified as being a key leverage point in the ultimate collapse of the Soviet Union.<sup>121</sup> The Bush Administration is portraying the GMEI as being a similar turning point for a region infamous for dictatorial rule and gross human rights abuses. Such a depiction places the GMEI in-line with Bush's long-standing foreign policy objective to bring "the global democratic revolution" to the world's last hold out of the Middle East<sup>122</sup> — a policy whose initial project, that of creating a beachhead for democracy in a post-Saddam Iraq, is off to a troubling start. Nevertheless, despite the rhetoric of human-rights and economic renewal, the GMEI is principally driven by matters of US national and strategic security. Many of the US' closest allies in the extended Middle East are themselves autocratic or authoritarian rulers — enjoying slim popular support amongst their constituents and maintaining power primarily through the imposition of force. In light of these conditions, Middle Eastern leaders such as House of Saud, General Pervez Mussaref, and Hosni Mubarek have witnessed a surge in Islamic militancy directed against their regimes fuelled largely by an overwhelmingly young and under-employed population resentful of corrupt rule. With Saudi Arabia, Pakistan and even Egypt exhibiting a similar confluence of variables to that which sparked the 1979 Islamic Revolution in Iran, the impacts of similar events occurring throughout the Middle East would be crippling to the US oil-driven economy as well as the 'Global War on Terrorism.'<sup>123</sup> Thus, the GMEI is intended to create the incentive and momentum to ensure US-friendly reform rather than Islamic revolution is the most viable solution to the sense of disfranchisement and underdevelopment experienced by Middle Eastern populations. In this sense, although the GMEI complements the US-agenda in Iraq, it can be seen a reversal of strategy on the part of the White House: the solution to the long-term stability crisis in the Middle East may not be the parachuting in of US-imposed democracies, but rather the gradual reform of existing regimes leading to grassroots democratic renewal.

## Objective 1: Components of the Initiative

Despite all the rhetoric, the actual components of the GMEI are still being drafted and revised even though the Sea Island Summit is only weeks away. The document as a whole is modeled after the 2002 *UN Arab Human Development Report* which was drafted by Arab researchers and

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<sup>121</sup> Marina Ottaway and Thomas Carothers, *Policy Brief: The Greater Middle East Initiative: Off to a False Start*, Carnegie Endowment for International Peace (Washington D.C.) 2004. Date of Access 15 May 2004 [www.ceip.org/files/pdf/Policybrief29.pdf](http://www.ceip.org/files/pdf/Policybrief29.pdf).

<sup>122</sup> Remarks by the President at the 20th Anniversary of the National Endowment for Democracy, United States Chamber of Commerce, Washington, D.C., White House (Washington D.C.) 6 November 2003. Date of Access: 14 May 2004 [www.whitehouse.gov/news/releases/2003/11/20031106-2.html](http://www.whitehouse.gov/news/releases/2003/11/20031106-2.html).

<sup>123</sup> Dr. Anthony Cordesman, *Saudi Arabia: Opposition, Islamic Extremism, and Terrorism*. Saudi-US Relations Information Service (Washington D.C.) 2004. Date of Access: 15 May 2004 [www.saudi-us-relations.org/defense/islamic-extremism-terrorism.html](http://www.saudi-us-relations.org/defense/islamic-extremism-terrorism.html).

called for wide-spread reforms in the region's political, economic and social policies.<sup>124</sup> In addition, most analysts now admit the GMEI will likely not include any radically new policy goals but will rather amalgamate long-standing operating principles of various government departments into a single, comprehensive document. In many respects, the GMEI will be mirroring the work already being carried out by the Euro-Mediterranean Process — better known as the Barcelona Process — launched by the EU in 1995 to facilitate the same goals as the GMEI in the countries ringing the Mediterranean Sea.<sup>125</sup>

In terms of political goals, the GMEI will call for the standard policy prescriptions of increased freedom for political opposition parties, the creation of independent electoral commission and the holding of regular and internationally-monitored elections, increasing liberties on freedom of expression and association and promoting the independence of the judiciary. The GMEI will also likely allude to the need to carve out a space for secular law in the legal code books of Middle Eastern states while being careful not to offend the privileged status afforded *sharia* Islamic law in these countries. The GMEI, however, also contains a concerted focus on increasing the status and role of women in Middle Eastern societies. In line with this objective, the initiative's political goals will also likely call for greater political suffrage and voter registration for women and increased representation in all levels of government. The GMEI will also likely offer customary statements endorsing the return to democracy in Iraq and lending support to the UN-US timetable to hold free elections in the country by the end of 2005.

With respects to economic goals, the GMEI will focus on providing renewed opportunities for economic growth, and will likely employ the broad influence of the G8 in this realm to reward states for progress made on the political front. Economic renewal is perceived a key pillar of the GMEI seeing as the 22 Arab states included in the initiative's target have a combined GDP less than that of Spain.<sup>126</sup> This fact is of increasing concern not merely due its impact on quality of life in the region, but also in light of the White House's warming to the policy conclusion that poverty breeds the conditions for terrorism and instability. The economic component of the GMEI calls for the US standard policy proposals such as tariff liberalization, tighter fiscal spending, and measures to increase Direct Foreign Investment. However, the initiative also includes more novel ideas such as the creation of a Greater Middle East Finance Corporation (referred to as the Middle East Development Bank in other drafts), modeled after the International Finance Corporation, to foster medium- and large-sized entrepreneurial enterprises. The GMEI will also likely call on the G8 and other sponsor-states to provide upwards of USD\$500-million in micro-loans — valued at approximately USD\$400 each — to spur 1.2 million small-scale entrepreneurs and lift individuals out of crippling private debt.<sup>127</sup> Lastly, one of the largest carrots to be held up by the G8 to induce

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<sup>124</sup> Samuel Lewis, *The Greater Middle East Initiative: Implications for Transatlantic Relations*, Centre for Strategic and International Studies (Washington D.C.) 5 March 2004. Date of Access: 14 May 2004 [www.csis.org/europe/040305\\_LewisSummary.pdf](http://www.csis.org/europe/040305_LewisSummary.pdf).

<sup>125</sup> Marina Ottaway and Thomas Carothers, *Policy Brief: The Greater Middle East Initiative: Off to a False Start*, Carnegie Endowment for International Peace (Washington D.C.) 2004. Date of Access 15 May 2004 [www.ceip.org/files/pdf/Policybrief29.pdf](http://www.ceip.org/files/pdf/Policybrief29.pdf).

<sup>126</sup> "How the Arabs Compare: Arab Human Development Report 2002," *Middle East Quarterly Review* (Philadelphia) Vol. IX, No. 4 (Fall 2002). Date of Access: 14 May 2004 [www.meforum.org/article/513](http://www.meforum.org/article/513)].

<sup>127</sup> Robin Wright, "U.S. Readies Push for Mideast Democracy Plan," *Washington Post* (Washington D.C.) 28 February 2004. Date of Access: 18 May 2004 [www.washingtonpost.com/wp-dyn/articles/A13514-2004Feb27.html](http://www.washingtonpost.com/wp-dyn/articles/A13514-2004Feb27.html).

political and economic reforms will be facilitated entry for Middle Eastern states into the World Trade Organization, opening up access to global, and in particular, American, markets.<sup>128</sup>

The more bold aspects of the GMEI, and those perhaps most likely to anger more conservative elements of Middle Eastern regimes, are the socio-cultural goals of the initiative. Women's equality and enfranchisement is a common principle agreed to by all G8 member-states and as such, it is a pillar of the GMEI package. The initiative will likely call for universal suffrage for women politically and a greater role for them in the economy outside the home. It will also likely call for increased enrollment of girls in schools, the creation of literacy programs focusing on women and girls, and the financing of micro-loans to allow women — in particular widows — to start small businesses. While many elements within Middle Eastern societies would eagerly support such reforms, certain religious and conservative actors are likely to oppose the measures.

Other socio-cultural objectives include the creation of a 'literacy corps,' with the goal of halving illiteracy in the region by teaching 20 million people — overwhelmingly Arab — to read by 2015. This objective is complimented by parallel goals of translating Western classics into Arabic and training 100,000 female teachers by 2008.

Despite the US' focus on combating terrorism in the region, security goals are notably absent from the GMEI package. This oversight is almost entirely attributable to the Israeli-Palestinian conflict and US fears that the inclusion of such a matter in the initiative would side-line all other issues and lead to a dead-lock at Sea Island. As such, despite fervent Arab objections, the US has removed the Israeli-Palestinian question from the agenda and transferred it to the separate Middle East Peace Plan (MEPP) that the US intends to keep apart from the GMEI. However, security issues may still find their way back into the initiative in other arenas. On 8 February 2004, US Senator Richard G. Lugar (R-Ind.), chairman of the Foreign Relations Committee, delivered an address in Munich, Germany supporting the GMEI, and calling on NATO to establish a partnership plan to aid Middle Eastern militaries with tasks such as peacekeeping, counterterrorism, military reform and civilian control of the military.<sup>129</sup> While the G8 is unlikely to endorse an action plan for such a project at Sea Island, they may endorse the concept itself and recommend it be explored further at the NATO Summit, also being held in June 2004.

## **Objective 2: Prospects for Success and Arab Objections**

When the GMEI was initially proposed, it seemed to carry with it considerable political capital for success. Seeing as US President Bush faces a national election in November 2004, the GMEI, and the entire G8 Summit itself, is meant to showcase his image as a multilateral global leader. Furthermore, considering the deteriorating situation in Iraq, the GMEI is also intended to reassure his domestic audience that his long-term strategy for the Middle East is not only on track, but is endorsed by the US' closest allies. Considering the fact that fellow G8 leaders such as Canada's Paul Martin and German Gerhard Schroeder are in an equally vulnerable position vis-à-vis pending elections, there exists a momentum behind the Sea Island toward compromise and unanimity in order to ensure the Summit is a political and public relations success. This, combined with the fact that the G8 successfully launched a similar initiative with Africa at 2001 Genoa and 2002 Kananaskis Summits, boded well for the likelihood of Bush forwarding a democratic and economic reform package for the Middle East. Indeed, at the G8 Foreign Ministers' Ministerial in Washington D.C. on 14 May 2004, Colin Powell issued a statement that

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<sup>128</sup> Robin Wright and Glenn Kessler, "Bush Aims for 'Greater Mideast' Plan. *Washington Post* (Washington D.C.) 8 February 2004. Date of Access: 17 May 2004  
[www.washingtonpost.com/ac2/wp-dyn/A24025-2004Feb8?language=printer](http://www.washingtonpost.com/ac2/wp-dyn/A24025-2004Feb8?language=printer)].

<sup>129</sup> [www.washingtonpost.com/ac2/wp-dyn/A24025-2004Feb8?language=printer](http://www.washingtonpost.com/ac2/wp-dyn/A24025-2004Feb8?language=printer)

all member-states has agreed to “advance at the Sea Island Summit an initiative to work in partnership with governments, businesses and civil society in the Middle East to assist political, economic and social reform through existing and new assistance programs.”<sup>130</sup>

Nevertheless, from the outset of the initiative there has been simmering, and in some cases explicit, hostility from the very states at which its actions are targeted: the so-called ‘Greater Middle East.’ While each state holds its own grievances, they all seem to agree on a host of principle complaints that have yet to be remedied by the US, and in some cases, are even quietly held by other G8 member-states. The entire initiative was initially crafted in secret within the confines of the US State Department and the White House and virtually without any public involvement by Middle Eastern states. In fact, the GMEI was only made public accidentally when a UK-based Arabic newspaper, *Al-Hayat*, published a leaked US internal memo intended only for senior G8 ministers on 19 February 2004 that outlined the plan.<sup>131</sup> Already highly skeptical about US-imposed regime change in Iraq, Arab states in particular have reacted angrily to the notion of the US dictating further policy prescriptions on the Middle East. On 12 March 2004 Jordanian Foreign Minister Marwan Muasher, went so far as to say, “Our objective is for this document never to see the light,” as quoted by the *New York Times*.<sup>132</sup> Secondly, many Arab states reject being lumped together in an imagined geo-political construct such as the “Greater Middle East.” States more hostile to the plan see the construct as an attempt to dilute, if not fracture, Arab unity. Others see it as attempt to achieve an artificial consensus by packing the initiative with US allies such as Turkey and Afghanistan who are likely to endorse its measures due to their exposure to American pressure. Almost all Arab states, even those open to reform, have agreed that any dialogue with the G8 should take place with Arab states alone, with expanded regional dialogue left for another time. The last principal complaint focuses on the Israeli-Palestinian conflict and its omission from the GMEI. Many Arab states see the conflict as the critical policy issue in the region and do not believe any serious confidence can be placed in US reforms until the United States is prepared to act decisively to end this conflict.

### **Objective 3: US Responses and Reforms to the GMEI**

Recent developments since the GMEI was leaked in February amid a hostile response from the Arab world and an equally hesitant, if more reserved, response from Europeans have been mixed, but many do not bode well for the initiative success at Sea Island. In an attempt to bring Arab states into closer involvement, Secretary of State Colin Powell visited Saudi and Kuwaiti leaders in March 2004 to discuss the initiative<sup>133</sup> while Undersecretary of State for Political Affairs Marc Grossman was sent on a tour of Arab capitals for similar policy dialogue. The US’ strategic goal of these envoys was to secure an endorsement of the GMEI at the upcoming Arab League Summit, which was scheduled to be held in Tunis on 28 March 2004. This Summit, however, was cancelled largely due to a lack of Arab unity over the issue of US reforms. When the Arab League finally did convene on May 2004, their final communiqué bluntly stated that reforms must come from within the region, not imposed from the outside. While the League did agree to such measures as “widening the sphere of public participation in government” and “enhancing the role of women,” they set no timetables to achieve these goals and compliance was voluntary. Overall, hardly the ringing endorsement of which Washington was in search.

In light of this moderate policy failure, Bush backed away from his original assertion that non-G8 states would not be invited to the Summit and instead sent invitations to a number of Muslim

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<sup>130</sup> [www.g7.utoronto.ca/foreign/formin040514.htm](http://www.g7.utoronto.ca/foreign/formin040514.htm)

<sup>131</sup> [english.aljazeera.net/NR/exeres/4D0D7F1E-0E20-4449-85F6-9A00F65C841C.htm](http://english.aljazeera.net/NR/exeres/4D0D7F1E-0E20-4449-85F6-9A00F65C841C.htm)

<sup>132</sup> [www.ceip.org/files/pdf/Policybrief29.pdf](http://www.ceip.org/files/pdf/Policybrief29.pdf)

<sup>133</sup> [www.washingtonpost.com/wp-dyn/articles/A11433-2004Mar20.html](http://www.washingtonpost.com/wp-dyn/articles/A11433-2004Mar20.html)



leaders to come to Sea Island. However, this policy reversal also produced unexpected results when the Egyptian Foreign Minister Ahmad Mahir broke with standard diplomatic protocol on 25 May 2004 and announced publicly that President Hosni Mubarak would not be attending the Summit. A similar public decline was issued by another close US-ally, Saudi Arabia, on 28 May 2004. Although not public, it is widely reported that key Arab states of Morocco, Tunisia, and Qatar have also privately declined the US' invitation to Sea Island. This leaves Jordan, Bahrain, Algeria, Afghanistan, and Yemen as the attending states from the region, many of which carry marginal influence in the Arab community. On 27 May 2004, perhaps responding to the public sense of rejection of the GMEI by the Middle East, Bush also extended an invitation to Turkish Prime Minister Recep Tayyip Erdogan to attend the Summit.

The list of invited states also underscores the Bush Administration's reluctance to adopt the Arab stance that the G8 must engage with them first as a united front, and then pursue separate dialogue with other Muslim states in the 'Greater Middle East.'<sup>134</sup> The invitees to Sea Island include only four Arab states attending, along with two non-Arab, and many of the states attending (Jordan, Turkey, Afghanistan, Bahrain) are viewed by Arabs as too wedded to US support to act as independent representatives of the region. Nevertheless, the Bush Administration has made some concessions. In a leaked version of a revised GMEI draft obtained by *USA Today* on 26 May 2004, it would appear the US has agreed to at least change the name of the initiative to the *Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa*. Part of the reason for a name-change was due to European objection that the previous title had too great of a historical resonance with Adolf Hitler's 'Greater Germany.'<sup>135</sup>

In terms of the final complaint of the Arab bloc, concerning the absence of the Israeli-Palestinian conflict from the reform package, the US administration has seemed willing to offer the most amount of ground on this point. The new revised draft of the GMEI includes the statements that "reform in the region will go hand in hand with out support for a just, comprehensive, and lasting solution to the Arab-Israeli conflict," and goes on further to endorse a two-nation policy for Israel and Palestine in accordance with UN Security Council Resolution 1515 pertaining to the Road Map.<sup>136</sup> Notably, the statement does not make mention of the more relevant UN Security Council Resolution 242 (1967) calling Israel to withdraw to the 1967 Green Line, or Resolution 194 (1948) endorsing a Palestinian 'Right of Return' for refugees.<sup>137</sup> The main reason for this is that on 14 April 2004, Bush marked a serious reversal of long-standing US foreign policy by stating that any peace deal between Israel and the Palestinians would not realistically include the return of refugees or the dismantlement of all Jewish settlements in the West Bank.<sup>138</sup> This policy shift provoked a unanimous and hostile response from the Arab world, and will not be easily forgotten when Arab states negotiate the reform package at Sea Island.

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<sup>134</sup> [www.tehrantimes.com/Description.asp?Da=6/2/2004&Cat=4&Num=020](http://www.tehrantimes.com/Description.asp?Da=6/2/2004&Cat=4&Num=020)

<sup>135</sup> Barbara Slavin, "US Toning Goals for Mideast," *USA Today* (McLean, Virginia) 27 May 2004. Date of Access: 18 May 2004 [www.usatoday.com/news/world/2004-05-26-mideast-goals\\_x.htm](http://www.usatoday.com/news/world/2004-05-26-mideast-goals_x.htm)

<sup>136</sup> Draft Sherpas Document: Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa, Sea Island, Georgia 2004 [www.usatoday.com/news/world/sherpa.pdf](http://www.usatoday.com/news/world/sherpa.pdf), as published in Barbara Slavin, "US Toning Goals for Mideast," *USA Today* (McLean, Virginia) 27 May 2004. Date of Access: 18 May 2004 [www.usatoday.com/news/world/2004-05-26-mideast-goals\\_x.htm](http://www.usatoday.com/news/world/2004-05-26-mideast-goals_x.htm)

<sup>137</sup> *Israel, Palestine, and the Occupied Territories: UN Document and UN Links: Security Council Resolutions*. Global Policy Forum (New York) March 2004. Date of Access: 18 May 2004 [www.globalpolicy.org/security/issues/isrlindx.htm](http://www.globalpolicy.org/security/issues/isrlindx.htm).

<sup>138</sup> Oliver Moore, "No Right of Return, Bush Tells Palestinians," *Globe and Mail* (Toronto) 14 April 2004. Date of Access: 15 May 2004 [www.globeandmail.com/servlet/story/RTGAM.20040414.wbush0414\\_3/BNStory/Front/](http://www.globeandmail.com/servlet/story/RTGAM.20040414.wbush0414_3/BNStory/Front/).

## **Final Revised Objectives**

Overall, the leaked draft of the revised GMEI reflects perhaps the more likely outcome of the initiative for the Sea Island Summit. Amidst reports that Europeans and Americans are narrowing their difference over the GMEI with the exception of the texts referring to the Arab-Israeli conflict and the situation in Iraq, the prospects for a more diluted initiative to be pushed through look more optimistic. The new revised draft will likely be endorsed by the G8 and the Muslim leaders in attendance that sets specific deadline for socio-cultural goals such as education and literacy. The economic goals will be similarly robust, including a call for the establishment of a Broader Middle East and North Africa Development Corporation, as well as the development of a micro-financing program. It is unlikely, however, the individual states outside the US will commit to specific funding for these measures at Sea Island. Nevertheless, most of the language concerning political reform will be rhetorical and without a set timetable, and above all, will be phrased to depict them as desired, yet entirely voluntary. The G8 are likely to endorse a proposal known as the Forum for the Future, which would involve regular meeting between G8 and Middle Eastern foreign, economic, and other ministers, beginning in Fall 2004. It is likely at these meetings the more contentious and detailed aspects of the plan will be hammered out, rather than at Sea Island. As such, the document signed at Sea Island will be largely rhetorical and will carry little legitimacy in the region it targets until Middle Eastern governments, and/or the Arab League endorses it as well.

Anthony Prakash Navaneelan  
G8 Research Group

# International Financial Institution Review

## Introduction

The concrete review of IFI's was actively initiated at the September 2003 Finance Ministers meeting in Dubai by Britain and its support for the International Finance Facility that was created in January of 2003 as a measure to meet the internationally agreed Millennium Development Goals.<sup>139</sup> This brought about a reassessment of the role of the IMF and World Bank in developing countries and was later actively addressed at the Finance Ministers' meeting in April of 2004. There, the necessity for the review of International Financial Institutions was concretely addressed by the Finance Ministers' from the United States, Russia, the UK and Japan. Using the current HIPC Initiative as an example, the respective Finance Ministers' all voiced their concern about the current lending policies and practices of the program and their actual contribution and effect on long term economic sustainability. Additionally, the Finance Ministers questioned the role of the IMF in the economic growth of developing countries.

### Objective 1: Japan and IFI Review

Using the HIPC Initiative as an example at the April Finance Ministers' Meeting in Washington, Japan called into question the role of the IMF in developing countries. Japan expressed concern that the IMF by way of programs such as the HIPC Initiative has taken on the role of a long-term provider of financial assistance instead of carrying out its role which is to respond to short term temporary balance of payment needs to countries.<sup>140</sup> The role of long term financial assistance is delegated to the lending banks.<sup>141</sup>

### Objective 2: The U.K. and IFI Review

The United Kingdom has been calling for a review of the IMF and World Bank since the first Finance Ministers' Meeting after the 2003 summit in Evian, and has proposed the creation and instatement of a new international financial body that would serve as an investment forum and relieve the IMF and World Bank of long term involvement in the economic reconstruction of developing countries.<sup>142</sup> In September of 2003, Rt. Hon. Gordon Brown, Minister of Finance for the United Kingdom proposed the creation of the International Finance Facility that would among other things serve as an investment forum, ensuring donor commitments and increase financial flows to projects directed at the economic reconstruction of developing countries.<sup>143</sup> In April of 2004, Brown stressed the importance of such a forum and illustrated the potential that such an institution would have in relieving the burden of providing long term economic aid from the IMF and World Bank: "The IFF is founded upon long-term, binding donor commitments from the richest countries. It builds upon the additional \$16 billion already pledged at Monterrey and it leverages in additional money from the international capital markets to raise the amount of

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<sup>139</sup> Her Majesty's Treasury, "Full Text of the International Finance Facility Proposal," January 2003 [www.jubileepius.org/analysis/articles/hm240103.htm](http://www.jubileepius.org/analysis/articles/hm240103.htm)

<sup>140</sup> International Monetary Fund, "Statement by the Hon. Toshihiko Fukui," 23 September 2003, [www.imf.org/external/am/2003/speeches/pr29e.pdf](http://www.imf.org/external/am/2003/speeches/pr29e.pdf)

<sup>141</sup> Ibid.

<sup>142</sup> International Monetary Fund, "Statement by Rt Hon Gordon Brown, United Kingdom International Monetary and Financial Committee," 21 September 2003, [www.imf.org/external/am/2003/imfc/state/gbr.htm](http://www.imf.org/external/am/2003/imfc/state/gbr.htm)

<sup>143</sup> Ibid.

development aid for the years to 2015 from \$50 billion per year to \$100 billion per year.”<sup>144</sup> The allocation of additional funds and the creation of an additional financial body would allow the IMF to focus on its original obligation, responding to short term balance of payments needs.

### **Objective 3: Russia and IFI Review**

At the April 2004 Finance Ministers’ Meeting in Washington, Aleksei Kudrin Minister of Finance of the Russian Federation stresses the necessity of IFI review, in particular the lending practices currently being carried out under the HIPC Initiative.<sup>145</sup> Russia believes that the current practices of debt-relief and topping-up at completion point serve as a “substitute for difficult solutions concerning the links between sound economic policies, debt sustainability, and responsible lending to LIC’s on the part of International Financial Institutions.”<sup>146</sup> Russia believes that the main responsibility for the management of unsustainable debt and economic growth lies within developing countries themselves to pursue sound economic strategies.<sup>147</sup> Furthermore, Russia urged the IMF to “improve its analysis of economic growth factors such as implementation of structural reforms, strengthening institutions of governance, and investment of infrastructure development.”<sup>148</sup> Russia is calling for the complete reevaluation of the role of the IMF in developing countries and of the HIPC Initiative as a successful tool for the perpetuation of long term economic sustainability.

### **Objective 4: The United States and IFI Review**

The United States calls for a review of the IMF and World Bank, in particular their role in long term economic growth projects. In a statement to the IMF on April 24, 2004, the Hon. John Snow, Secretary of the Treasury of the United States of America calls for a reassessment of the role of the IMF in low income countries.<sup>149</sup> Echoing the concern of the Japanese and Russian Finance Ministers’ Snow agreed that the IMF should provide “financial assistance to its poor country members with balance of payments needs” and that development provisions should “come from the development banks and bilateral donors, not the IMF.”<sup>150</sup> The United States proposes a complete reevaluation of the IMF’s role in low income countries.<sup>151</sup>

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<sup>144</sup> International Monetary Fund, “Statement by the Honourable Gordon Brown, Minister of Finance of the United Kingdom,” 24 April 2004, [www.imf.org/External/spring/2004/imfc/statem/eng/GBRe.pdf](http://www.imf.org/External/spring/2004/imfc/statem/eng/GBRe.pdf)

<sup>145</sup> International Monetary Fund, “Statement by Mr. Aleksei Kudrin, Minister of Finance of the Russian Federation,” 24 April 2004, [www.imf.org/External/spring/2004/imfc/statem/eng/RUSe.pdf](http://www.imf.org/External/spring/2004/imfc/statem/eng/RUSe.pdf)

<sup>146</sup> Ibid.

<sup>147</sup> Ibid.

<sup>148</sup> Ibid.

<sup>149</sup> International Monetary Fund, “Statement by the Honourable John Snow, Secretary of the Treasury of the United States of America,” 24 April 2004, [www.imf.org/External/spring/2004/imfc/statem/eng/usae.pdf](http://www.imf.org/External/spring/2004/imfc/statem/eng/usae.pdf)

<sup>150</sup> Ibid.

<sup>151</sup> Ibid.

In conclusion, the review of the IFI's is necessary for long term economic assistance to low income countries. Under current conditions, the lending banks and bilateral donors have little obligation to countries with sustainable debt problems and the burden of debt relief has be relegated to the IMF. The necessity for the review of the IMF and World Bank stems from a drastic change in the roles that these institutions have taken on in recent years. In particular this has been the case since 1996 with the creation of the HIPC Initiative and the appointment of the IMF as the principle long-term aid supplier to countries with debt sustainability crisis'.

Olga Sajkowski  
G8 Research Group