

## Beyond Heiligendamm

The G-8 and its dialogue with emerging countries



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Katharina Gnath | While holding the G-8 presidency in 2007, one of Germany's main objectives has been to improve cooperation with emerging countries. The Heiligendamm summit launched a two-year process to give dialogue with China, India, Brazil, South Africa, and Mexico on a more structured and long-term basis without enlarging the G-8 itself.

The debate over how to better represent emerging countries in the G-8 and other international fora is hardly new.<sup>1</sup> Yet it has taken on a new form and gained in urgency with the phenomenal shifts in the global balance of economic power in recent years.<sup>2</sup> China and India have integrated into the world economy at a staggering pace. Even if G-8 countries still occupy the world's top positions in economic terms, others are quickly catching up (see table p. 37). Moreover, there is a growing recognition that G-8 members alone cannot solve many of the most pressing global problems. This applies to key economic areas such as global trade and investment rules, as well as climate change and energy. Without China, by far the largest holder of foreign reserves and one of the top CO<sub>2</sub>-emitters, or India and Brazil, key players in multilateral trade negotiations, common global solutions are hardly feasible. And then there is the legitimacy problem; the elite group has long been criticized for not being representative and accessible for non-members, especially African countries.

Despite numerous initiatives and the backing of high-ranking figures—including former G-8 presidents Gerhard Schröder, Keizo Obuchi, and Tony

1) Established in 1975 to facilitate dialogue and co-operation on economic issues of common concern, the “Group of Eight” consists of the United States, Japan, the United Kingdom, France, Germany, Italy, Canada (since 1976) and Russia (since 1998, not fully present at the G-7 finance ministers’ meetings). The EU has participated since 1977, but is not an official member.

2) Peter Hajnal, “Summitry from G5 to L20: A Review of Reform Initiatives,” The Centre for International Governance Innovation, Working Paper Nr. 20, Toronto, March 2007.

Blair<sup>3</sup>—there is no consensus among the group's members regarding enlargement of the G-8. There are two basic arguments against enlargement. For one, the group's small size and the informality of its meetings facilitate a direct exchange of views, which in turn helps to forge compromises and launch common initiatives. With the admission of further countries, the G-8's decision-making ability would be greatly reduced. Secondly, a key argument against formal enlargement is the G-8's agreement on common political and economic values. The founding declaration stipulates that the group's members are committed to "an open, democratic society" and to "individual liberty and social advancement." The shared values are seen as key factors in the group's robustness. Potential candidates only come into serious consideration if their political and economic values are in sync with those of the G-8—with the possible exception of Russia, where the expected domestic reforms have stalled since it joined the club.

China ranks highest among potential new members because of its exceptional economic position. Its political system, however, makes accession in the near future out of the question. Yet other significant emerging countries such as India and Brazil, whose political values conform better with those of the G-8, will most likely not be accepted before China. Formal offers of membership on the part of the G-8 are therefore unrealistic at the present.

Global Ranking		IP-G8	
	GDP (\$US billion)	External trade volume (exports plus imports in \$US billion)	Foreign direct investment (inflows in \$US)
1	United States (12 417)	United States (2639)	UK (164)
2	Japan (4534)	Germany (1758)	United States (99)
3	Germany (2795)	China (1422)	China (72)
4	China (2234)	Japan (1110)	France (64)
5	UK (2199)	France (912)	The Netherlands (44)
6	France (2124)	UK (854)	Hong Kong, China (36)
7	Italy (1763)	Italy (758)	Canada (34)
8	Spain (1125)	Canada (691)	Germany (33)
9	Canada (1114)	The Netherlands (661)	Belgium (24)
10	India (806)	Hong Kong, China (589)	Spain (23)

Values for 2005. Source: (GDP) World Bank: World Development Indicators; (External Trade) International Monetary Fund:International Financial Statistics March 2007; (FDI) UNCTAD: World Investment Report 2007.

3) All three have, during or after their G-8 presidencies in 1999, 2000, and 2005, spoken in favor of enlarging the G-8. See also G8 Research Group, "G8 Reform: Expanding the Dialogue. An overview of the G8's Ongoing Relationship with the Emerging Economic Countries and Prospects for G8 Reform," Toronto, June 2005.

### The Heiligendamm Process

In past years, the G-8 has invited non-members to attend select meetings. However, the composition and focus of these events has always depended on the individual priorities of the G-8 chair. The Heiligendamm Process establishes a new form of dialogue for the G-8 and the five “outreach countries” (O-5)—

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China, India, Brazil, South Africa, and Mexico.<sup>4</sup> The parties agreed to embark on results-oriented discussions, which will be reviewed at the 2009 summit. The OECD was invited to assist the work of a high-level steering group and a working group with organizational and academic expertise.

The process will be organized along four thematic pillars: crossborder investment; innovation and intellectual property rights; energy and climate change; and development (particularly in Africa).

The initiative marks an important step toward greater involvement of emerging countries. Contrary to one-off negotiations, a long-term perspective of interaction increases the sustainability of compromises and potentially furthers cooperation between the G-8 and the O-5 countries. In the past, the G-8 chair would decide who to invite and what the nature of their participation would be. With the Heiligendamm Process, close dialogue is ensured at least for the coming two years. This is important as the G-8 develops from small, informal talks among heads of state and government into a permanently active network. Meetings now take place throughout the year at the ministerial, official, and expert levels. There is a complex network of close relationships interacting “365 days/year, 24h/day.”<sup>5</sup> It has been suggested elsewhere to introduce issue-specific G-8 associations.<sup>6</sup> The accession of Russia to the “political” G-8, but not to the G-7 of finance ministers, has already shown that the G-8 can operate beyond full membership on a topical basis. The Heiligendamm Process is a further development in this direction.

### Looking Ahead

The Heiligendamm Process will start its work this autumn. However, for it to be successful and widely accepted a number of challenges must be met:

1. While emerging countries would like to see their role in global governance strengthened according to their increased economic importance, they are not willing to become involved at any price.<sup>7</sup> A number of O-5 countries are wary of forming too close and formal ties with what is known as a club of rich nations. They fear that this could damage their reputation in the developing world and

4) See Joint Statement by the German G-8 Presidency and the Heads of State and/or Government of Brazil, China, India, Mexico and South Africa on the occasion of the G-8 Summit, Heiligendamm, June 8, 2007, [www.G-8.de](http://www.G-8.de).

5) Sieglinda Gstöhl, “Governance through government networks: The G8 and international organizations,” *Review of International Organizations* Vol. 2 (2007), p. 2.

6) Seema Desai has advanced this idea for the case of China in, “Expanding the G8: Should China Join?,” The Foreign Policy Centre, London, January 2006.

7) See Joint Position Paper of Brazil, China, India, Mexico and South Africa participating in the G-8 Summit, Heiligendamm, June 8, 2007, [www.pmindia.nic.in/GermanyG8\\_visit.htm](http://www.pmindia.nic.in/GermanyG8_visit.htm).

prefer to stress their allegiance to the southern hemisphere. This cautiousness is reinforced by the fact that the Heiligendamm Process is linked to the OECD, an organization dominated by Western industrialized nations.

2. The O-5 (with the exception of Mexico, already an OECD member) does not want to be discriminated against in a parallel but distinct process of “enhanced engagement” with the OECD. Although the O-5 was reassured that the OECD would only play a supporting role in the Heiligendamm Process, it remained worried that the two tracks could become entangled.

3. The chosen topics of the Heiligendamm Process—investment, innovation, energy, and development—are delicate. This year’s G-8 meetings, which the O-5 participated in, showed that many key compromises will be very difficult to conclude. At the recent G-4 trade talks to save the Doha Round, India and Brazil demonstrated that they will stand their ground even if intransigence risks foiling the agreement.

4. Finally, the declaration launching the Heiligendamm Process was issued by the O-5 and the German presidency, not by all G-8 members. For the multilateral dialogue to be successful and the results to be implemented, the new process cannot rely on the Germans and the OECD secretariat alone.<sup>8</sup> All eight members, especially the next two presidencies (Japan and Italy) as well as the United States, need to be fully convinced of its relevance for the group’s work to bear fruit.

Those who demand more global responsibility from emerging countries must provide them with the appropriate governance framework. The establishment of the Heiligendamm Process marks an important first step in involving emerging countries in global economic governance, potentially serving as a catalyst for reforms in other organizations like the International Monetary Fund, the World Bank, and the OECD. Now it is important to build upon the political momentum from the summit. While financing of the OECD support group has been clarified, the heading of the steering group must be finalized quickly in order for actual dialogue to start as soon as possible.

Emerging countries must be convinced that their voices are being heard.

In an effort to foster closer cooperation between the G-8 and emerging countries, the Heiligendamm Process is one important element—but only one. Emerging countries will only commit to common goals and solutions if they are convinced that their voices are being heard in the G-8 negotiations, both at the preparatory meetings and at the main summit. The G-8 is confronted with the question of how to deal with the changed global economic situation and the growing influence of emerging countries. The answer to this question is crucial for the future direction, effectiveness, and legitimacy of the group. Given the growth dynamics of emerging countries, their increased involvement will remain a long-term challenge far beyond Heiligendamm.

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<sup>8)</sup> The OECD secretariat has an intrinsic interest in making the Heiligendamm Process a success, not least in order to convince its own members of the strategic importance of OECD reform in favor of emerging countries.