

GLOBAL RESPONSES TO THE NEW GLOBAL CHALLENGES

Recommendations for the G-8 Kananaskis Summit
from the G-8 Preparatory Conference

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Letter of Transmittal to the Leaders of the G-8 Member Countries

The report that follows was adopted unanimously by the 22 participants in a G-8 Preparatory Conference that was held in Washington on April 5, 2002. The purpose of the group was to develop proposals for the G-8 summit to be held in Canada in June 2002. We hereby transmit our full report to the Heads of State and Government who will be meeting in Kananaskis and to the G-8 sherpas who are preparing the summit for them.

This was the third annual meeting of the G-8 Preparatory Conference. Our initial session was held in Tokyo on April 10-11, 2000 and we presented our first report to Prime Minister Mori, as chairman of the Okinawa summit, on April 12 of that year. We met to discuss the Genoa summit in Turin on January 21-22, 2001 and in Genoa itself on July 1-3 of that year, and shared our thoughts with leaders of the Italian government in Rome immediately thereafter. Our group has added seven members since that original meeting and has lost two (Robert Zoellick, who has become the United States Trade Representative, and Heizo Takenaka, who was our original co-chairman and has now become Minister of Economic and Fiscal Policy of Japan).

Our Preparatory Conference is based on the premise that recent G-8 summits have not fulfilled their potential. We believe the summits should reform their methodology and adopt agendas that effectively address the sweeping changes in global economic and security affairs that characterize the early years of the new century. We make no effort to cover the

full array of topics that have been included in recent summits but instead attempt to prioritize a short list that deserves strategic attention by the summiteers, and are pleased that this year's summit in Canada has reportedly adopted that approach.

The G-8 Preparatory Conference was initially sponsored by the Nippon Foundation and organized by the Tokyo Foundation and the Institute for International Economics. Its meetings in 2001 were hosted by the Italian Institute of International Affairs and the San Paolo/IMI Bank. The meetings in 2002 were co-hosted by the Institute for International Economics and the Canadian Institute of International Affairs. The full list of participants and a note on the sponsors follow the report.

The Preparatory Conference seeks to assemble a group of distinguished private citizens, from all eight of the summit countries, who have had extensive experience with the issues involved, including through their personal involvement with previous summits. Dr. Henry Kissinger, for example, was involved in the first two summits in 1975 and 1976. Renato Ruggiero was active in seven different summits. A number of our members have functioned as sherpas to help prepare those events.

Our group has functioned continuously since early 2000. Its members exchange views frequently on possible items to address in our annual reports and circulate background papers on individual issues. Some of the background papers for our

April 2002 meeting were prepared by members of the group itself and several others were prepared by outside experts whose help we greatly appreciated.

They included:

- “Prospects for the World Economy: From Global Recession to Global Recovery” by Michael Mussa of the Institute for International Economics;
- “Prospects for Japan in the Short- and Medium-Term” by Adam Posen of the Institute for International Economics;
- “The Dollar and the US Economy” by C. Fred Bergsten;
- “The New Economy in Europe and the United States” by Martin Baily of the Institute for International Economics;
- “New York, Genoa, Monterrey: A New Perspective for Development Partnership” by Michel Camdessus;
- “Delivering on Debt Relief: From IMF Gold to a New Aid Architecture” by Nancy Birdsall of the Center for Global Development and John Williamson of the Institute for International Economics;

- “Responding to Security and Development Needs in the Midst of Africa’s Collapsed State” by Ian S. Spears of the University of Windsor; and

- “Kananaskis G-8 Summit: Terrorism Issues” by Reid Morden, former Director of the Canadian Security and Intelligence Service and former Personal Representative of Prime Ministers Mulroney, Campbell, and Chrétien.

As noted at the outset, this report was adopted unanimously by the 22 participants in the Preparatory Conference (except for several reservations by one as indicated). Not every member of the group, of course, necessarily agrees with every word in the document. But we were able to reach a strong consensus on every issue and thereby convey our recommendations with a firm sense of conviction that their adoption would significantly promote international prosperity and security.

Our Preparatory Conference hopes that its analyses and proposals will make a useful contribution to a successful summit at Kananaskis. We plan to meet annually in an effort to support future summits as well, including in France in 2003. Our group expresses its deep gratitude to the Institute for International Economics for carrying out the project and to the Canadian Institute of International Affairs for co-hosting the Preparatory Conference in 2002.

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Global Responses to the New Global Challenges

Recommendations for the G-8 Kananaskis Summit from the G-8 Preparatory Conference

THE NEW SETTING

In our first two reports, in 2000 and 2001, the G-8 Preparatory Conference recommended that the G-8 Leaders focus on a small number of major strategic themes rather than dissipating their energies across a laundry list of topics of lesser importance. We are deeply gratified to learn that the Leaders are planning to follow just such an approach at their 2002 summit in Kananaskis, Canada. Our proposals in this report will attempt to strengthen their responses to the several issues chosen so that the new strategy may be implemented successfully.

Both the Kananaskis summit and this report take place in a very different context from the Genoa summit of 2001. The world economy, led by the United States, is recovering from the recession of a year ago. The membership of the World Trade Organization, with effective leadership from the G-7—as proposed by our Preparatory Conference for the past two years—and others, has launched a new round of multilateral trade negotiations with a comprehensive mandate via the Doha Development Agenda. Also with effective G-7 leadership, the United Nations Financing for Development Conference in Monterrey, Mexico has pledged substantial increases in assistance to the world's poorest countries.

By far the greatest change from a year ago is the far-reaching impact of the terrorist attacks of September 11. The G-8, and indeed most of the world, cooperated swiftly and

effectively in responding to the immediate sources of those attacks. But the implications of 9/11 are pervasive and profound, affecting everything from international security arrangements through homeland defenses to the global economy. The underlying as well as direct causes of terrorism must be addressed. The G-8 agenda will be deeply influenced by these developments for the foreseeable future.

We believe that all these events underline the importance of the G-8 summits. Only the Leaders of the world's most powerful countries can cope effectively with such global threats as terrorism and development failures that produce widespread poverty and despair. Only at the summit can the essential linkages be forged among these seemingly disparate, but in fact deeply interconnected, issues. Successful implementation of the summit process has never been more important.

The events of 9/11 will influence the G-8 summits, certainly in 2002, in at least one more important manner. The antiglobalization demonstrators, who became an overwhelming preoccupation at Genoa that produced its own tragedy, have modified their tactics substantially as a result of the terrorist attacks. Hence the Leaders, particularly meeting in the isolation of Kananaskis, can focus their full attention on the substance before them.

THE WORLD ECONOMY

The world economy appears to be recovering from the slow-down of late 2000 and 2001. The United States, which led the decline, seems to again be growing robustly with positive effects on the rest of the world. Hence the G-8 can best focus its attention on several underlying problems that continue to pose threats to the sustainability and stability of the global outlook.

We believe that two issues rank at the top of this list: Japanese financial fragility and the external imbalance of the United States. The two are in fact closely related: further weakening of Japan's financial condition (and hence of its economic performance) can lead to a further decline in the exchange rate of the yen, which in turn further increases the US trade deficit. The G-7 Leaders must address these issues at Kananaskis, perhaps privately and without public comment to avoid any possible adverse market reactions, in order to avoid potentially severe disruption to the currently brighter outlook for the world economy.

In addition, we believe that the G-8 must continue to address trade at Kananaskis. Many of the problems cited in our previous reports continue to fester despite the launch of the new WTO round at Doha. Indeed, trade conflict between the European Union and the United States has intensified. Regional arrangements continue to proliferate, raising questions about the future of the multilateral system. Some developing countries continue to express strong doubts about the impact on them of the global trading rules and institutions. The Leaders would be remiss if they failed to deal with these problems as an integral part of their effort to maintain a strong, stable, and cooperative world economy over the longer run.

Japan

Japan has experienced a "lost decade" of economic stagnation since its financial bubble burst in the early 1990s, the worst performance of any G-7 country in the postwar period. It is experiencing the first prolonged deflation in an industrialized nation since the 1930s. Its national debt and budget deficits are far higher than those of any other G-7 member. Unemployment and bankruptcies have soared to postwar highs for Japan. The country will probably benefit from the global recovery that is now underway but its longer run outlook remains shaky.

The most important element of the problem is the structural weakness of Japan's banking system. Nonperforming loans have reached such a level that respected analysts estimate that fully one half of the banking system is insolvent and that the inevitable recapitalization of the remaining institutions will cost 15-20 percent of GDP. Progress in addressing the problem has been very slow and concern is growing, both in Japan and around the world. On some accounts, the situation is in fact getting worse and a major financial crisis—embracing capital flight from Japan and runs on individual banks—could erupt at almost any time.

Underlying these economic difficulties are fundamental political problems in Japan. It has proven extremely difficult to overcome institutional rigidities, which block reform of the banking system, and other entrenched impediments to restoration of economic progress. Major changes may be needed to create a political system that is more responsive to Japan's fundamental needs. Japan must move quickly and decisively,

at all these levels, to begin the necessarily extended and painful process that will rectify its deep current problems and provide a foundation for the renewed economic progress that the country remains fully capable of achieving.

One direct consequence of Japan's continuing stagnation has been the substantial decline in the exchange rate of the yen. This is producing a renewed sharp rise in Japan's trade surplus, already by far the largest in the world, and is in essence exporting Japan's problems to the rest of the world. This pressure on Japan's trading partners, especially in East Asia, could trigger renewed crisis in the region if it progressed to a point, as it easily could, that would force China and others to let their own currencies fall in response. Other countries should accept a degree of yen depreciation if it were to result from the implementation of fundamental reform in the Japanese economy but it cannot be tolerated as a substitute for such reform. This is especially true as exports represent less than 10 percent of the Japanese economy, and are already doing quite well, so that a decline of the yen will do little to rescue the economy in any event.

These problems must be resolved by Japan itself. Other countries have limited ability to either affect change in Japan, short of triggering a crisis by their own actions or words, or to influence Japan's political leadership to initiate and implement such change. Nevertheless, the issue is of sufficient gravity to the world economy that the G-7 Leaders should again press Japan to address its problems urgently and effectively, starting with a much more aggressive program to restructure the banking system by dealing more quickly with the problem of the nonperforming loans, and remind it not to try to export its problems to the rest of the world.

The United States

The second structural issue of significance to the sustainability and stability of world economic growth is the external imbalance of the United States. The US current account deficit will approach \$500 billion, or 5 percent of GDP, in 2002 and is projected to reach 7 percent by the middle of the decade unless corrective action is taken. As a result of this imbalance, and its own capital exports, the United States must attract over \$4 billion of foreign capital every working day of the year. The net foreign liabilities of the United States already exceed \$2 trillion and international holdings of dollar assets have reached \$10 trillion.

This situation is unsustainable over the longer run, as indicated publicly by Chairman Alan Greenspan of the Federal Reserve Board and IMF Managing Director Horst Köhler. OECD countries typically must adjust when their external deficits reach 4-5 percent of GDP. Large dollar depreciations have occurred once per decade since the early 1970s, and by about 50 percent after the previous peak trade deficit in the mid-1980s, without the imbalance ever rising to even 4 percent of GDP. Even a modest fall in the huge capital inflow to the United States that is required to balance the books, let alone a reversal of those flows, could produce a very large and very rapid fall in the exchange rate of the dollar.

Such a fall in the dollar would have major consequences for the world economy. In the United States itself, it could trigger a worrisome rise in inflation and interest rates. These in turn would almost certainly drive down the stock market. The result would be a significant diminution, even termination for a while, of economic growth. For the rest of the world, especially in Europe—because a rise in the euro would prob-

ably be the main counterpart to the fall in the dollar—and also in Canada and Japan, trade balances would deteriorate substantially and growth would also be sharply curtailed (albeit with a lag due to the time needed for currency changes to affect export orders and thus economic activity). Concerted intervention by the G-7 would clearly be called for to attempt to limit the pace, and perhaps the extent, in the event of the usual overshooting, of the currency correction.

There is a political as well as financial component to the unsustainability of the US external imbalance. Dollar overvaluation and the attendant huge trade deficits have been among the most potent leading indicators of US trade protectionism throughout the postwar period. The correlation between the recent 30 percent increase in US steel tariffs, and the 30 percent decline in the euro from its inception, may not be accidental. An orderly correction of the American imbalance will surely be essential if the Doha round is to proceed successfully and if additional protectionist pressures are to be avoided.

Hence the US external imbalance and the pending decline of the dollar pose a potentially major threat to the world economy. Indeed, the problem could become worse in the short run: the robust US economic recovery that now seems to be underway will itself increase the trade deficit, as imports rise faster than US sales to markets that are growing less rapidly, and as the dollar perhaps strengthens further for a while as a result of America's leading the global recovery. The G-7 countries should act to mitigate these risks, intervening to limit any renewed dollar climb (or independent yen decline) and/or to ease the currency back toward sustainable levels rather than risk a hard landing. The G-7 Leaders should instruct their Ministers of Finance to address this issue imme-

diately and urgently, and to develop a plan of action to both limit the damage in the short run and to promote a constructive correction over the next few years.

Europe

Our focus on Japan and the United States does not mean that Europe should be ignored in the discussion of the world economy at Kananaskis. We do not see equally severe unsustainable trends emanating from Europe, although the long-run viability of the euro may depend on increasing the flexibility of the adjustment process within the eurozone. We do believe that Europe's failure to effectively pursue structural reforms is restraining European growth well below its potential and helps account for its sluggish performance in 2002. Hence Europe, and especially the European Union, is not making its full contribution to global economic recovery and long-term strength.

There are numerous areas in which Europe should pursue structural reform. The most important are probably the labor markets and the capital markets along with completing the "single market" in key sectors like energy and telecommunications. Increasing the openness and flexibility of all these markets could both enhance European growth and smooth the necessary adjustments within the euro area now that the traditional tools of monetary and exchange-rate policy have been given up. Moreover, national welfare systems urgently need fundamental overhaul, especially pension systems that will face certain financial breakdown in their present versions as national populations age. We urge the European nations, and especially the European Union, to be much more ambi-

tious in dismantling their traditional impediments to market-driven adjustment. We urge the G-7 Leaders to be more ambitious in pushing Europe to move in this direction.

Trade Policy

Trade policy is the other global economic topic that should be addressed at Kananaskis. It relates closely to the problems in each of the major G-7 economies: continued stagnation in Japan, growing external deficits in the United States, and subpar growth in Europe all undermine the prospects for resolving trade disputes cooperatively and, especially, for successful negotiation of the new Doha round.

Moreover, it is clear that trade expansion is an essential element of any successful development strategy for the poorer countries. We return to that issue below, in the context of Africa, but note here that protectionist policies in rich countries, such as their massive agricultural subsidies, are often damaging to development prospects. It would be totally inconsistent and counterproductive for the countries that have just agreed to sharply increase their development assistance to take back those benefits to the poor countries by erecting new impediments to their exports. Indeed, global trade liberalization could be worth many times as much to the poorest nations as all the foreign aid they are likely to receive.

We are sufficiently concerned by the current trade scene to propose that the G-8 summit declare a standstill on the creation of any new trade barriers until the agreed conclusion date of the Doha round in 2005. In addition, the G-8 should extend for two more years the “peace clause” on agriculture agreed at the end of the Uruguay Round to last until the end

of 2003, under which the key countries agree not to bring new trade cases against each other to the WTO, and apply it until 2005 for the remainder of trade relations among the G-7 countries. We believe this strategy could avoid intensification of the transatlantic trade conflict, which by itself could suffice to derail the WTO talks, and create an improved international environment in which those talks can proceed successfully.

AFRICA AND DEVELOPMENT

The second major issue at Kananaskis will be Africa, as the focus of a broader G-8 and global effort to attack poverty throughout the world. We continue to believe that the G-8 should open at least some of its meetings to a larger group of countries, per our recommendation of a year ago to invite Leaders of the G-20 whose Finance Ministers now gather regularly, to strengthen the legitimacy of the global governance regime. We are pleased, however, with the ad hoc step in the direction of inclusiveness via the engagement of several African leaders as representatives of that crucial and often neglected continent, and the related visit of the Prime Minister of Canada, as chair of this year’s summit, to Africa itself for consultations on the issue.

The New Partnership for Africa’s Development (NEPAD) provides a fresh and fruitful foundation for progress by setting out an ambitious range of targets for preventing conflict, promoting democracy, tackling diseases, and calling for substantial new investments in Africa each year. Its initiation and development by the Africans place “ownership” of the process precisely where it must reside—in the countries themselves. Its commitment to sound policies, and the appli-

cation of peer pressure to promote implementation of those policies, creates a promising framework through which to develop the new partnership—including the generous response from the G-8 that is required.

This core element of the NEPAD, however, is off to a shaky start. The absence of effective African pressures for sound practices around the recent election in Zimbabwe raises serious doubts about the prospects for both good governance and effective peer pressure on the continent. The faltering of economic reforms in Nigeria, a NEPAD leader, adds concern about the likely maintenance of sound policies. The G-8 Leaders must ask tough questions about the commitment of African governments to their own people, and hence to the NEPAD process, and decide whether it truly represents a new and solid basis for their adopting positive new measures of their own to help the continent develop.

To help NEPAD work out as envisaged, we recommend that the G-8 respond in four specific ways. First, they should announce a set of “selectivity principles” that would guide the distribution of their assistance (to poor countries outside Africa as well as to Africa itself). Such principles could include:

- sound and progressive economic policies;
- effective and transparent governance; and
- a clear commitment to meeting the basic human needs of their people, especially their health and education requirements.

Second, the G-8 should commit themselves to provide the amounts of assistance needed to meet the agreed Millennium Development Goals. The pledges before, at and after Monterrey by Canada, the European Union, and the United States were important initial steps in this direction. Determination of the amounts needed will require both additional experience with current assistance programs and further research.

Third, the G-8 Leaders should now agree to provide additional debt relief. Properly conditioned, as it must be, debt relief is superior to traditional aid. It is less costly to donors than usually imagined because much of the debt is uncollectable anyway. Debt relief is clearly more popular politically than other forms of assistance. Thus the G-8 (and other creditor countries) should further expand the current program for Heavily Indebted Poor Countries (HIPCs) by agreeing to:

- limit the annual debt service of any qualified HIPC to 2 percent of its GDP;
- expand coverage to all poor countries, including several larger ones (especially Indonesia, Nigeria, and Pakistan);
- create a contingency fund that would safeguard HIPC debt servicing capabilities from natural disasters and changes in eligible countries' export prices; and
- fund relief of debts to the IMF and some of these other costs by mobilization of up to \$10 billion of IMF gold, as was recently done with \$800 million of that stock.

Fourth, the G-8 should immediately eliminate all their trade barriers to exports from the poorest countries and exempt those countries from all applications of contingent protection (mainly antidumping and countervailing duties). Canada, the European Union (with its “Everything but Arms” initiative), and the United States (with its African Growth and Opportunity Act) have already taken initial steps in this direction. It is essential to make these initiatives comprehensive and sustained, however, and to preclude the risk that contingent protection will undermine the liberalization steps, to promote the needed local and foreign direct investment that will support sustainable growth in these nations. It is also essential to finance capacity building in the poorer countries so that they can participate fully and effectively in new trade negotiations from which they will benefit.

The NEPAD would mark a historic breakthrough in cooperative relationships between the G-8 and African countries if all components of its framework can be implemented effectively. Both groups must devise and faithfully carry out an extensive and difficult set of measures, however, for that result to eventuate. Doing so should be among the highest priorities at Kananaskis, and the Canadian summit could be long remembered for this initiative if it can be achieved.

COMBATING TERRORISM

The campaign against terrorism has many facets. The initial imperative is of course the war against al Qaeda and the Taliban, where the G-8 and many other countries are cooperating dramatically and effectively. The rapid and sustained effort of the anti-terrorist coalition is enormously encouraging.

The next steps in the campaign will be much more difficult, however. Al Qaeda and other terrorist organizations clearly continue to exist in a large number of countries and “privatized war” will thus remain a constant threat. State sponsors of their activities, or of even more menacing prospects, will be even more difficult to counter. The possibility that such groups, or states, possess or could acquire weapons of mass destruction (WMD) add enormously to the potential threat. This risk underlines the relationship between the “new” consensus over terrorism with the G-8’s traditional concerns about WMD, including nuclear proliferation as well as biological and chemical agents.

There is also an essential longer term dimension to the problem. The roots of terrorism derive their impetus from deeper cultural, economic, and psychological conditions in many locations around the world—ranging from the G-8 themselves to the most remote countries. Any effective program to make the world safe from terrorism on a lasting basis must address these underlying sources of the problem as well as its more immediate manifestations.

Such a program must be conducted multilaterally. Even if a single country can conduct much of the needed military activities, multilateral cooperation will be indispensable to address the broader and deeper elements of the campaign against terrorism. The G-8 Leaders should reaffirm their commitment to this approach.

The G-8 must clearly continue to devote high priority to successful completion of the current campaign against al Qaeda. Completion of that task is essential to free the world from the imminent threats, and attendant anxieties, that these groups have posed. But other terrorist threats and risks clearly exist, and will continue to exist indefinitely. Hence it is im-

perative for the G-8 to initiate a far more comprehensive “next step” in the campaign against terrorism. We recommend three major steps in that direction.

First, the G-8 should launch an extensive program of cooperation in the creation of “homeland defenses.” Such cooperation should include a wide number of policy areas including intelligence, law enforcement, border controls, and immigration policy. The United States has established a new priority for homeland defense and has created a new office in the White House to “deliver” improved capacities (although much greater authority will have to be extended to that office if it is to do so). The United Kingdom has much experience of what it has called “reacting to civil emergencies.” During the recent anthrax scares in the United States, the Russian government was able to be helpful given its own knowledge of biological agents. The Japanese and continental European governments have all taken their own initiatives to strengthen domestic security arrangements to deal with new threats.

Effective homeland defense relies on other countries having good homeland defenses as well. Homeland defense has an extraterritorial dimension. Homeland defense in each country can be strengthened through similar steps in other countries and through proper international coordination.

Against that background, the G-8 should develop more far-reaching coordination on priorities for homeland defense and for the comparison of best practices in this area, as Canada and the United States have already begun to do. A number of G-8 governments have longstanding experience with terrorist threats and their handling. Hence the development of a catalogue of best practice in this area could produce welcome efficiencies and even “economies of scale” in the development of new homeland defense initiatives.

A second key area is the international legal framework for addressing terrorism. The G-7 summits have addressed this issue almost from their inception, referring to hijacking at Bonn in 1978 and to hostage-taking at Venice in 1980, and have in fact initiated all twelve of the existing United Nations conventions on terrorism. A clear demonstration of leadership to the rest of the international community would be a determined push by all members of the G-8 to ratify all 12 conventions in time for Kananaskis. This would represent both powerful symbolism and, even more important, broaden the coverage of these important pieces of international law. Several additional steps of this type now appear ripe for action if the G-8 would accord them sufficient priority.

A special committee established by the United Nations General Assembly has recently resumed work in New York on a draft comprehensive counter-terrorism treaty. Of that treaty’s 27 articles, 24 have been generally agreed in principle and debate will now focus on the remaining few most difficult issues, including a legal definition of terrorism itself. Bogged down in the virtually unsolvable “one man’s terrorist is another’s freedom fighter” argument, this issue alone will require a major act of political will to solve. It is not helped by the fact that there are variations, sometimes controversial, in the definitions used by major G-8 players in their national anti-terrorist legislation. There are many useful UN conventions on terrorism without defining the term but a concerted push to complete this treaty, driven actively by all G-7/8 members, could be initiated at Kananaskis. At a minimum, the G-8 itself should agree on a definition of terrorism; this could be enormously helpful in galvanizing international opinion on all these issues.

At the same time, the Counter-terrorism Committee established by the United Nations Security Council under its Resolution 1373, which was adopted in the wake of the events of September 11, is completing the first phase of its work. The Committee, which comprises all members of the Council, has been eliciting responses from the 189 member states on the degree to which they are in compliance with the provisions of Security Council Resolution 1373. The resolution directs that member states shall undertake a series of measures to combat terrorism. The next phase of this important work will be to assess the incoming responses, which have been received from almost 120 states, and then reply to the states indicating whether or not they are in compliance with the provisions of 1373. In cases where states are judged by the Committee not to be in compliance, the Committee will seek to ascertain what help those states might require to become compliant.

Enhancing a state's ability to deal with terrorism often requires capacity-building. The G-8 can help others build that capacity. This will mean a commitment of funds but the increase in security for all makes it a cost-effective expenditure. Kananaskis can take a lead both in supporting the work of the Security Council Committee and in undertaking to support with human and financial resources the efforts required by states noncompliant with Resolution 1373.

The suppression of terrorist financing also merits Summit action. There is a recent convention on this topic and much has been done, especially since September 11, within the G-7 to freeze terrorist assets. The efforts made by G-8 governments should be highlighted and additional measures articulated to reflect the work that has been going on for some time.

In terrorism, as with organized crime, it is a truism that you can do far worse than follow the money trail. That trail, for both kinds of illicit activity, is remarkably similar. The links

between terrorism, transnational organized crime, illicit drugs, money laundering, and trafficking in illegal arms are in fact all too well known. In this context, it is worth drawing attention to a major initiative within the American Bar Association, addressing cyber crime, one of the fastest growing areas of criminal/terrorist activity.

The ABA has worked closely with various G-8 bodies over the past few years, complementing the work of governments. Their project is intended to extend the work of the G-8 and other industrialized nations regarding cyber crime to developing countries with the goal of promoting:

- enactment of cyber crime laws;
- cooperation with national and international law enforcement and Internet Service Providers (ISPs); and
- cooperation regarding jurisdictional issues.

Recognition of and support for this initiative, now scheduled to come to fruition in August of this year, would be another real and practical outcome for the Summit.

Finally, the G-8 could promote a new legal convention on the handling of terrorist suspects. The United States has recently noted that the Geneva Convention relating to the laws of war had not anticipated the kind of conflict in which the United States was now engaged. In dealing with battlefield detainees captured following military activity in Afghanistan, the United States has struggled to fill the gaps in international law on this subject. In the past, other countries had recognized the lacunae in the legal instruments related to terrorist activity. (The United Kingdom had always been careful to refer to the "troubles" in Northern Ireland, as op-

posed to the “war against the IRA,” precisely to avoid being trapped into conferring prisoner of war status on those with whom it had done battle.)

Against that background, it would make sense for the G-8 to begin evolving principles that might be put forward on a new international convention to cover the handling of terrorist suspects. Without such a convention, there would be perpetual controversy over the way in which present international law should apply to terrorist suspects. A new convention would strengthen an international campaign against terrorism by clarifying procedures that could be used in respect of suspected terrorists.

Third, in addition to these highly operational steps, the G-8 will clearly need to discuss other security issues that are of high priority when they meet in Kananaskis in late June. As we wrote this report in April, the Middle East is the clearest of such contingencies and urgent action is required to reduce the level of violence and address the fundamental political roots of the problem. Somewhat longer term issues, including actions against states that are viewed as potential terrorist threats, must also be on the agenda. Neither we nor anyone else can pretend to anticipate these problems with great precision, however, so we will defer commenting on them in this document.

CONCLUSION

As noted at the outset, the G-8 faces an unusual and critical set of challenges as a result of the events of September 11 in all their economic as well as security and political ramifications. We thus believe that the 2002 summit provides a unique opportunity to demonstrate to the world that the Leaders

understand and are addressing the wide range of international problems that they face, and deserve global confidence for the manner in which they are doing so.

Specific action is needed on several fronts. Leaders must address the underlying structural problems that face the world economy and threaten the sustainability of its nascent recovery. They must address poverty in Africa and around the world, with all its implications for long-term peace and security as well as its immense humanitarian repercussions. Most importantly, they must both conclude the initial phase of the campaign against terrorism and initiate a series of steps, across a broad array of specific issues, to make sure that their countries and indeed the entire world are protected to the maximum possible extent from threats both foreseeable and unforeseeable.

The G-8 summits were made for circumstances such as these. They both symbolize the leadership of the world’s leading nations in addressing these critical issues and provide a forum for addressing together some of the most difficult problems to face the world for some time. We hope that the Leaders at Kananaskis will pursue the recommendations made in this report as part of their response to these daunting challenges.

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* Signed report with reservations

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- To ensure that Canadians from all walks of life and from all parts of Canada have a better understanding of international issues and events.
- To bring the world to Canadians—including young Canadians—to inform, educate, and stimulate.

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