



Chairman's Summary
Shadow G-8

A diverse group of concerned citizens from around the world (including former government officials and leading economists) met at Columbia University on February 9 2007, under the sponsorship of the Initiative of Policy Dialogue (www.policydialogue.org), the Friedrich Ebert Foundation (www.fes-globalization.org), and Erlassjahr (www.erlassjahr.de), to consider the major issues facing the world today, and how the leaders of the G-8, meeting in Heiligendamm on June 6-8, 2007, might most effectively make progress in addressing those issues. We considered the announced agenda of *growth with responsibility*, what might or should be included in that agenda, and what we considered to be the minimum aspirations – the bar that the leaders should set for themselves in advancing this important agenda. We also considered the issues that risk being left off that agenda. There was a remarkable degree of consensus among the group. The following is the Chairman's summary of that consensus. (A more comprehensive report of the discussion has been provided by the rapporteur, Professor Stephany Griffith-Jones of the Institute of Development Studies, Sussex.)

The discussion centered on four themes: climate change, global imbalances, promoting growth and reducing poverty in the developing world (especially in Africa), and global governance. Two themes ran through much of the discussion. First, many of the actions of the advanced industrial countries have had, and continue to have, adverse consequences on developing countries—countries that make up some 80% of the world's population. These actions often impose unacceptably high levels of risk on developing countries. We must address these issues if we want to achieve long term sustainable *global growth with responsibility*, but addressing these issues is also a moral imperative. And if we are to effectively address these issues, we need to reform our systems of global governance. Second, the effectiveness of the G-8 process (or the reformed process described below) requires more *continuity over time*, including monitoring the extent to which commitments are lived up to. While the strength of the G-8 process lies in its informality, this aspect may have to be institutionalized. There is an in-built bias against continuity: each leader is more interested in creating a new agenda and leaving his or her mark than in seeing the fulfillment of an agenda that was set at a prior meeting. It is this personal involvement that provides some of the vitality of the G-8, but the problems of the world are too complex to be resolved in one-year efforts.

The role of the G-8 and the creation of a G-N

The G-8 can, and on occasions has, played an important role in addressing issues of global concern. Indeed its actual and potential influence is why so much attention is focused on these annual meetings of the world's economically most powerful countries. The informal discussions allow the leaders to develop a better understanding of each

others' perceptions of these problems and the constraints they face, and to break bottlenecks that may have hindered progress. The attempt to forge a consensus, articulated through an agreed communiqué, may, however, be counterproductive. In diverse democracies, sometimes progress can be more effectively achieved by striving for large elements of common ground, but recognizing and respecting the existence of divergences in viewpoints.

Furthermore, in today's globalized world, many of the most important problems can only be addressed by more global participation: this is obvious in several of the issues that are at the center of discussion today—global warming and global imbalances. The G-8 is no longer the appropriate forum for these issues. Indeed, the discussions may be counterproductive: their positions can be seen as the stances of the wealthiest industrial countries to advance their interests at the expense of others. While inviting (even on a regular basis) some other countries to participate in some of the discussion might be seen as a step in the right direction, it too may actually be counterproductive—it can become a two tier system that reflects global inequities of the past and imposes responsibilities on the new semi-members of the club for decisions and positions in which they did not fully participate.

*There needs to be a new forum, a G-N, in which leaders of the advanced industrial countries, middle income countries, and developing countries can gather together, to discuss informally the major issues facing the world. This should be a small enough gathering that there can be meaningful exchange, yet a large enough gathering that discussions can adequately reflect the diversity of circumstances and perspectives that exist in today's world.¹ This group would help identify key issues on which global action was required and help set in motion initiatives involving informal groupings of variable size and membership² to address them. *The G-8 meeting should set in motion plans for the first G-N meeting in the summer of 2008.**

Climate change.

With the issuance of the 4th IPCC assessment on February 2, 2007, it would be irresponsible for the G-8 not to take action on global warming. There is perhaps no issue of greater importance than saving the atmosphere of our planet, and the G-8 need to recognize that for the foreseeable future, assessing progress on how the world deals with global warming will have to be an agenda item at every meeting. At this critical juncture, more rhetoric about taking more aggressive actions towards global warming will not suffice. The G-8 should focus on what the member countries themselves can do and how they most effectively can help developing countries reduce their carbon emissions.

¹ The group discussed a number of the details of how the members of the G-N might be selected. See the Rapporteur's summary.

² The formation of recent groupings within the WTO to address the multiple issues on the agenda is an example of this "variable geometry" For instance, a grouping to address the variety of issues in aid should include not only the G-8, but the large donors in Northern Europe, the only countries that have lived up to their aid commitments.

The G-8 should agree on:

- a. A **set of principles**, recognizing the importance of global warming, and recognizing that it can only be addressed by giving countries *a portfolio of options*, including incentives, standards, regulations, and research. Key decisions today (such as those concerning power plants, transportation, and land usage) will affect carbon emissions for decades to come. There are a variety of ways that countries can achieve the objective of emission reductions. The G-8 should lay out a portfolio of choices, but these are choices about means, not results.
- b. **Monitoring results**—progress in emission reductions and increases in energy efficiency—should be an annual feature of every G-8 meeting.
- c. The agreed upon “principles” should include:
 - i. *appropriate **incentive** structures that require increasing prices for carbon.* Incentive structures should be set up to provide adequate incentives for installing, say, low emission power plants, which firms should know today. How these increasing carbon prices are achieved is a matter that can be left to countries, e.g. whether cap and trade or carbon taxes are established.³
 - ii. *an assessment of the carbon impact* of various public measures, such as alternative transportation systems and land usage rules.
- d. There are some **actions and** commitments that can be made now (even if the implementation may take some time). Among the actions that should be agreed upon are the following:
 - i. *eliminate subsidies for fossil fuels and distortionary taxes on alternative fuels*
 - ii. *a set of standards* for power-generating plants, electrical appliances, housing, automobiles, airplanes, and other major sources of pollution. Such standards should prohibit coal-fired plants in advanced developed countries, unless there is some provision for carbon storage. While there are many complexities in dealing with the problems of global warming, we are fortunate that a large fraction of emissions is related to a limited number of sources, e.g. power plants, so that appropriate standard setting can make a major difference.
- e. The promotion of a broad **research** program (conservation, alternative technologies, bio-fuels, etc.), including
 - i. the establishment of a *global research fund*⁴
 - ii. *ensuring that the benefits of the fruits of that research are made as widely available as possible.* Concern was expressed that Intellectual Property protections might inhibit the full utilization of this knowledge, especially

³ The group noted the increasing political support for the idea that it makes more sense to tax bad things, like pollution, than good things, like work and savings; and that accordingly a revenue neutral switch from income or value added taxes, to carbon taxes would seem increasingly politically attractive. Combining this with public support for public transportation would help ensure that such a switch was not regressive in its distributional consequences.

⁴ Knowledge is a global public good, and knowledge that helps the world deal with the global problem of global warming is “doubly” a global public good, requiring public support at the global level.

in developing countries.⁵ The Global Research Fund might be empowered to buy patents.

- f. There should be more **assistance to developing countries** (e.g. through the Global Environment Fund or through continued development of the Clean Development Mechanism) to adopt low emissions technologies, but such assistance should not be treated as part of G-8 country aid commitments. This assistance merely offsets the incremental costs associated with providing a global public good; it does not directly enhance developing country growth.
- g. Most importantly, the leaders of the G-8 need to help break the impasse that is developing in designing the post 2012 agenda.
 - i. They can begin by agreeing on a set of principles:
 1. Any successful approach to global warming has to be global.
 2. Any global system has to be both efficient and fair, which will require *common but differentiated responsibilities*;
 3. Fairness does not mean that because a country has polluted more in the past it should be entitled to pollute more in the future. Indeed, fairness, and the principle of the “polluter pays”, means that those who have contributed to the increase in carbon concentration in the atmosphere over the past 200 years should have, in some sense, entitlement to less pollution going forward; or that they should compensate the rest of the global community, e.g. through support of emissions efficient technologies in developing countries.
 - ii. The leaders need to explore, from a variety of perspectives, what a fair system might look like (equal emission targets per dollar, per capita), and what that might entail, e.g. in transfer payments. There needs to be a discussion of alternative approaches (e.g. commitments to rates of increase in energy or emission efficiency or pollution taxes).
 - iii. The leaders need to set in motion a process of continuing dialogue in an attempt to reach an agreed-upon set of principles. Given the magnitude of what is at stake and current divergences in viewpoints, there is a serious risk of failure in reaching an agreement about the 2012 world.
- h. While the G-8 are largely responsible for the increases in the atmospheric concentration of greenhouse gases, the developing countries are those that are most vulnerable to climate change; they are most likely to suffer the most and, at the same time, least able to bear the consequences.

Global imbalances.

Global imbalances represent a threat to global stability. There is a non-insignificant probability that there will, in the foreseeable future, be a disorderly and costly global economic adjustment. The costs of such a disorderly adjustment are likely to be borne disproportionately by poor countries, through large increases in interest rates (risk premia), changes in commodity prices, and a possible fall in export sales. The G-8 has repeatedly and rightly called attention to these imbalances. But there will be little benefit

⁵ The issues are parallel to issues discussed below on access to generic medicines.

if the leaders simply repeat the standard rhetoric (calling for reduced budget and trade deficits in the U.S., more exchange rate flexibility by China, and structural reforms [“flexibility”] in Europe), in an attempt to paint a picture of shared blame and shared action. These by now tired, worn prescriptions—which have not led to any action—should not be repeated again at the G-8. Moreover, such rhetoric does not apportion blame appropriately: the U.S. deficits are an order of magnitude greater than the imbalances originating from Europe and China. And indeed, were China to appreciate its currency, it might exacerbate current global problems, by making it more difficult for the U.S. trade deficit to be financed. Furthermore, were China to float its exchange rate, and simultaneously loosen restrictions on those in China investing abroad, it is conceivable that its exchange rate would actually fall.

While there was some disagreement among the group about the role of structural impediments in Europe (and the possibility of adverse short run consequences), there was a consensus on the following: there are serious deflationary biases in the global economy. The deflationary biases are a result of the Growth and Stability Pact, which limits deficit spending in Europe, even in periods of high unemployment; excessive fiscal and monetary stringency, which are sometimes, but not always—as in the case of Brazil—a result of IMF pressure; and a precautionary build-up of huge amounts of reserves. *Currently, tightening of monetary policy by the European Central Bank threatens the fragile recovery of Europe, and thus overall global prosperity.*

Given that it is unlikely that governments will take forceful action to forestall a disorderly adjustment of imbalances, it is important that the G-8 take actions to mitigate the risks, especially as they are confronted by developing countries. This includes expanding contingent lending facilities (without imposing conditionality) in the IMF, the issuance of SDR’s to developing countries in the event of a crisis; accelerating the development of credit markets in which developing countries could borrow in their own currencies and/or the issuance of other risk-sharing instruments such as GDP-linked bonds, and providing more scope for developing countries to impose prudent actions to dampen pro-cyclical movements of short term capital, e.g. Chilean style capital interventions.

Over the longer term, there will have to be reforms to the global reserve system. The current system, which arguably is already fraying, contributes to global instability and inequity. It makes little sense for developing countries to be lending trillions of dollars to the United States (in the form of reserves), while borrowing back a fraction of the amount at much higher interest rates. The current direction of reform, in which the Euro joins the dollar as a reserve currency, will not rectify the inequities and is likely to enhance global stability only slightly.

While the IMF might naturally provide the institutional forum for further study of the problem of global imbalances, governance problems within the IMF—where the major source of imbalances holds the veto power—makes its role questionable. The G-8 should initiate a working group to study reforms to the global reserve system. This is an example where “variable geometry” in the structure of global governance should come into play: the Asian countries hold disproportionate shares of global reserves and

contribute disproportionately to global savings, and they should perhaps have greater representation in this study group.

Promoting Development

The performance of many Asian countries over recent decades has provided new confidence that development is possible. Yet the gap between the richest and the poorest countries has increased, and the numbers in poverty in Sub-Saharan Africa are set to increase to 336 million by 2015⁶. While much of the responsibility for successful development rests with the developing countries themselves, there is much that the G-8, and more generally the more advanced industrial countries, can do. The group discussed a comprehensive agenda of aid, debt relief, trade, health and education, and attacking corruption. The group highlighted several actions that should be taken now, and several initiatives aimed at longer run reforms.

Fulfilling Commitments

There is disappointing progress in living up to the commitments made at Gleneagles. To achieve the commitment of doubling aid to Africa and providing 0.7% of GDP in aid overall, a further \$5 billion dollars annual is required.⁷ Some of the recent increases in recorded aid have been in the form of debt relief (money that might not in any case have been collected).⁸ This means that going forward, there may have to be substantial increases in real aid flows. The group highlighted that fulfilling commitments is an area where better follow-through and monitoring is particularly important.

A Development Trade Agenda: Beyond the Doha Round

Whether or not the Doha round is completed will make little difference for most developing countries. Whatever the outcome, it is clear that the developed countries have not lived up to the commitments made at Doha – and to the hopes of those that looked forward to a global trade regime that would promote development. The danger is that, should the round be completed, it be viewed as a development round. It is not.

There are a host of possible development oriented reforms that should be implemented, beyond the agriculture issues that have received so much attention. For instance, escalating tariffs are effectively designed to impede developing countries' ability to move up the value chain, to higher value added manufactured goods. Before turning over this

⁶ The World Bank. 2006. *Global Economic Prospects: Economic Implications of Remittances and Migration* (Computer file). Washington, DC: International Bank for Reconstruction and Development.

⁷ The G-8 countries pledged to give an extra \$50 billion of aid worldwide by 2010, half of which would go to Africa. (Patrick Watt and Tom Sharman, ActionAid. 2006. *G8 2006 Briefing*. ActionAid, p. 6. http://www.actionaid.org.uk/doc_lib/g8_2006_briefing.pdf)

⁸ Some countries have paid a high price for their debt relief. Nigeria, for example, has had to turn over in effect \$12 billion of its recent oil revenues in return for debt relief. (Patrick Watt and Tom Sharman, ActionAid. 2006. *G8 2006 Briefing*. ActionAid, p. 6. http://www.actionaid.org.uk/doc_lib/g8_2006_briefing.pdf)

next round of negotiations to trade ministers, the leaders should lay out a set of principles and criteria by which to evaluate the development impact of any trade measures.

Recent trends towards the proliferation of a spaghetti bowl of bilateral and regional trade agreements represent a threat to the global trade regime that was created with so much hard work over the past sixty years. The most important principle in that regime was that of non-discrimination, embedded in the most favored nation principle. Fears of a loss of advantages gained by new preferential treatments are creating impediments towards further global liberalization. Moreover, with bargaining power in these bilateral arrangements even more skewed than at the multinational level, there is a real danger that these agreements will be even more disadvantageous to developing countries. The G-8 should call a moratorium on bilateral agreements, until an assessment of their impacts on the global trading regimes and on developing countries can be conducted.

Health and Intellectual Property

Africa particularly has been badly hit by AIDS, a disease that is undoing so much of the progress that has been made in extending life expectancy. There have been laudable contributions from the advanced industrial countries and private foundations. With generic medicines selling at prices that are only 3% or less of the prices of brand name drugs, intellectual property protections have meant that, in some cases, the drug companies have been as much the beneficiary of this assistance as the developing countries; and even with this assistance, scarce money is still being diverted from other essential uses.

TRIPs recognized the need for access to generic medicines, making provisions for “flexibilities” through compulsory licensing. Yet there appear to be significant impediments to taking full advantage of these flexibilities, and there is evidence that pressure is being put on developing countries not to issue compulsory licenses. Some way forward, through which those in developing countries can have access to generic medicines for all diseases (not just those associated with epidemics like AIDS), must be found. This may necessitate revisiting TRIPs (as suggested by the World Commission on the Social Dimensions of Globalization, i.e. a TRIPs minus), or by an agreement within the current TRIPs framework on an expedited administrative procedures.⁹

Furthermore, WHO, and increasingly even pharmaceutical companies, have recognized that the current intellectual property system is not providing adequate incentives for innovation to combat the diseases afflicting developing countries. There must be a commitment to ensure that there is more research for the diseases that are widespread in developing countries, e.g. through the creation of a global health research fund.

What is clear is that the simple slogan “strengthen intellectual property rights” is not the right answer. It frames the question the wrong way, and as such, could move policy is

⁹ For instance, a list of drugs (perhaps like hair-loss drugs) that would not be eligible for compulsory licenses would be established. Countries would be allowed to issue a compulsory license for all other drugs.

the wrong direction. Intellectual property is complex, and there are a host of specific design features that determine whether an intellectual property regime promotes or retards innovation. One needs a balanced intellectual property regime, one that balances interests of users and producers, of academic researchers and of researchers in the private sector, of those in the developing world and in the developed. The issue is of particular importance because what separates developed from developing countries is not just a gap in resources, but a gap in knowledge; and TRIPs may have reduced access to knowledge by developing countries. Just as there was a need for a development oriented trade regime, so too is there a need for a **development oriented intellectual property regime**. In addition, TRIPs pays too little attention to the protection of Traditional Knowledge.

The G-8 should set up a working group to define what such an Intellectual Property regime might look like and how it might be implemented.

It should also look at how open sourcing can be used to promote development; and to ensure that IP laws do not work to the disadvantage of the open source movement. This group, or a separate group, should offer a portfolio of options to encourage research (including government supported research and prize funds¹⁰), and the role of intellectual property within that portfolio.

There are, however, also immediate actions that the G-8 could undertake. They might encourage the spread of the practice, initiated by Yale and some other American universities, of not patenting life-saving medicines in developing countries, and of demanding “carve outs” for developing countries in any licensing agreements made with pharmaceutical companies. They could insist on such practices for any government funded research. They can insist that the results of any government-funded research be made available to any country for purposes of drug approval, and that such research can be used by researchers anyway in the world as part of their own research. The most important input in the production of knowledge is knowledge, and there is a global imperative to accelerate the production of knowledge in areas of health, especially in the diseases affecting developing countries.

Africa

Dealing with the legacy of Africa is one of the most important moral issues of our times. Dealing effectively with the issues of aid, trade, health, and intellectual property already discussed is essential.

¹⁰ A **medical prize fund** would, for instance, reward those who come up with cures and vaccines for the diseases that are prevalent in developing countries. Such a fund could be financed by contributions from the advanced industrial country, e.g. a commitment of 0.05 % of GDP. A committee of experts could determine the size of the prize for different diseases, related to their prevalence and impacts. Once the cure is discovered, the competitive market place would help ensure low cost production of generics. Other proposals, such a guarantee purchase fund, would also be considered. A major criticism of the guarantee purchase funds is that they leave in place the monopoly distortions of the market place, which are particularly costly to those not having access to the fund.

While the group recognized the importance of accountability—of ensuring that aid money is well spent—conditionality often goes well beyond that. While there have been important steps in reducing conditionality, they have not gone far enough. More worrisome is the possibility of non-transparent conditionality entering through the backdoor, in the use, for instance of CPIA indicators for the allocation of IDA money. It is regrettable that what went into these indicators only became transparent recently (implying that they could not even be used to encourage countries to take appropriate actions to improve their governance indicators); but as information has become more public, questions are being raised about their reliability and/or their relationship to aid effectiveness. Conditionality may impair aid effectiveness and undermine democratic processes, and this is true either for up-front or hidden conditionality.

The G-8 should commit itself to promoting democratic processes, reforming conditionality, and ensuring that conditionality is not brought in by the back door. It should initiate an aid working group (another example of the variable geometry referred to earlier), with participation by both aid donors (including those donors, such as small European countries that are not part of the G-8) and recipients, on the impact and extent of implicit and explicit conditionality.

Corruption has been at the center of the World Bank's recent agenda. Fighting corruption is, of course, important. Nonetheless, objections have been raised to this agenda. There is worry about the possibility of corruption in the corruption agenda: that standards will not be applied in a consistent way or that basic safeguards (due process) will not be followed in taking actions (like denying loans to a party accused of corruption). There is also concern that the single-minded focus on corruption has distracted attention from other problems. Aid can be ineffective not just because of corruption but also incompetence or lack of administrative capacities.

Nonetheless, there are concrete actions that the G-8 can and should undertake to deal with corruption:

- a. Every act of corruption involves both a briber and a bribee—and often the source of the bribe is from a multinational corporation. The **OECD Convention on Combating Bribery** should be expanded to all countries and more rigorously enforced. Developed countries have been slower in ratifying the **UN Convention against Corruption** than developing countries.
- b. **Secret bank accounts** facilitate this corruption, just as they helped finance terrorism. Their use for terrorism has been stopped; but their use for other purposes¹¹ has not. The G-8 could do this quickly, simply by not allowing their banks to deal with any bank in any country that does not subscribe to certain basic principles of transparency.
- c. In previous G-8 meetings, attention was directed toward the importance of transparency in resource-rich countries, to avoid the resource curse. The Extractive Industries Resource Initiative focused particularly on “publishing what you pay.” But it is time to go beyond lip service to action. Until a few years ago, some in the G-8 allowed tax deductions for bribes. Now they don't. Now is the

¹¹ Including tax evasion.

time to no longer allow deductions for *any* payments that are not published. Overnight, this would change the extent of transparency.

Many African countries (and other developing countries) still face an unbearable burden of debt, in spite of the progress that has been made in debt relief. Going forward, however, the challenge is to prevent the recurrence of these debt burdens. The most important step in this direction would be to ensure that more risk is shifted from developing countries to developed, e.g. by devising ways that developing countries can borrow in their own currencies. The international financial institutions in particular should lend in local currencies¹² and should be instructed to look for new instruments to shift more of the risk away from developing countries, e.g. GDP indexed bonds, which would help align interests between creditors and borrowing countries.¹³ But even with the best designed risk sharing arrangements, circumstances will occur in which countries will be unable to repay what they owe. The discussions which began in the aftermath of Argentine's collapse on developing more systematic procedures for the restructuring of sovereign and cross border debt, should be restarted.

The G-8 discussion in Heiligendamm will almost certainly turn to the key question of how to promote investment in Africa. It is important that this discussion be framed by the realities of the situation: even those countries in Africa which have achieved macro-economic stability and reduced corruption—performed by all accounts and by most measures well—have not been very successful in recruiting foreign investment. (To be sure, the constant refrain of corruption has not provided particularly constructive advertising.) Part of the reason is the absence of infrastructure. Reducing manmade trade barriers has only limited impact if there are no roads to bring goods to market or ports to ship them abroad. That is why a strong aid-for-trade initiative is so important. The African Development Bank can also play a role here. A shortage of human skills—compounded by a weak legacy of educational institutions and a brain-drain—can only be corrected by more investment in education.

In Africa, as elsewhere, the World Bank and other international economic institutions have and can continue to play an important role in development. But the effectiveness of their role, especially when it comes to discussions on questions of governance, is threatened by deficiencies in their own governance. The IMF's recognition of the problem, and its first steps in reform, were noted. And while deeper reforms in these institutions may take time, there are some steps that can be taken immediately by the G-8 countries themselves. Most importantly, there needs to be an agreement that the heads of the institutions should be chosen differently: they should be chosen in a transparent manner, in procedures that look for the most qualified candidate regardless of country of origin.

Moreover, the G-8 should recognize the principle of *competitive pluralism*, that there is not a single way forward for developing countries. Different countries have taken

¹² Or in market baskets of correlated currencies.

¹³ Both the creditor and the borrowing country would be better off when the borrowing country performs better.

different paths. There are many different forms of a market economy and different development institutions may advance different perspectives, so allowing developing countries to make their own choices will strengthen democracy. By contrast, the current system of *linkage*, where availability of loans, say at the World Bank, are contingent on the approval of an IMF program, goes in exactly the opposite direction, and whatever one thinks of the particular orthodoxy,¹⁴ it is wrong to impose any orthodoxy on all countries. *Delinkage* is a simple step that could do as much for promoting democratic development as almost any other that the G-8 could undertake at its meeting in Heiligendamm.

The G8, the most important annual meeting of the advanced industrialized countries, has stirred growing dissatisfaction with the global governance system, process, and outcomes. The need for multilateralism and solving problems collectively has never been greater, yet the institutions are not in place. We hope that the Shadow G8 will lead to a better diagnosis of the global architecture and a productive debate on reforms, with a particular emphasis on the well-being of developing countries.

¹⁴ And it is perhaps noteworthy that many of the most successful developing countries have followed strategies that are markedly different from those advocated by the IMF.