CONTENTS

Letter of Transmittal to the Leaders of the G-8 Member Countries 1

Toward Shared Responsibility and Global Leadership: Recommendations for the G-8 Genoa Summit from the G-8 Preparatory Conference 4

Participants in the G-8 Preparatory Conference 14

About the Sponsors 15

Selected Background Papers

Launching a New Trade Round at the WTO 17

by C. Fred Bergsten

Broadening Participation in G-7 Summits 23

by Wendy Dobson

Toward A Global Environmental Organization 30

by Daniel C. Esty

Global Aging: Challenges and Policy Response 34

by Peter G. Peterson

Iraq Sanctions: A Reappraisal 47

by John Chipman

Reforming the Nonproliferation Regime 53

by Karl Kaiser
The report that follows was adopted unanimously by the 23 participants in a G-8 Preparatory Conference that was held in Turin on January 21-22, 2001. The purpose of the group was to develop proposals for the G-8 summit to be held in Genoa in July 2001. We conveyed an initial summary outline of our ideas to the G-8 sherpas prior to their initial meeting for 2001 on February 2-3 and hereby transmit our full report to the Heads of State and Government that will be meeting in Genoa.

This was the second 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. Our group has added seven members since that original meeting and lost one (Robert Zoellick, who has become the United States Trade Representative). We will meet again much closer to the dates of the Genoa summit to provide an update of our suggestions for that event and any additional proposals that seem appropriate at that time.

Our Preparatory Conference is based on the premise that recent G-8 summits have not fulfilled their potential. Many observers indeed deride them as “mere photo-ops” and have even proposed their abolition. We firmly reject that suggestion, in favor of reforming the methodology of the summits and of their adopting 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 we feel deserves strategic attention by the summiteers. Short papers that elaborate on several of those ideas are attached to the report.

The G-8 Preparatory Conference is sponsored by the Nippon Foundation and is organized by the Tokyo Foundation and the Institute for International Economics. The Turin meeting was hosted by the Italian Institute of International Affairs and the San Paolo/IMI Bank. 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.

Our group has functioned continuously since early 2000. Its members exchanged views throughout the fall of 2000 on possible items to address in 2001 and background papers were circulated on a number of the individual issues. Some of the background papers were prepared by members of the group itself and several by outside experts whose help we greatly appreciated. They included:

• “Improving Governance in an Increasingly Interdependent Global Community” by Renato Ruggiero;

• “A New WTO Round” by Patrick Messerlin;

• “Achieving the Benefits of Global Internet Connectivity and Electronic Commerce” by Catherine L. Mann of the Institute for International Economics;

• “China and the G-8” by Yoichi Funabashi;

• “Global Environmental Challenges” by Daniel Esty of Yale University and INSEAD;

• “Global Aging: Challenges and Policy Response” by Peter G. Peterson;

• “Helping the Poorest of the Poor: A New Agenda for the G-8” by Jeffrey Sachs of Harvard University;

• “Dark Clouds Shrouding the World Economy” by Toyoo Gyohten;

• “Asia’s New Economy and the Downside Risks” by Heizo Takenaka;

• “Energy Issues for the G-8” by Philip Verleger of The Brattle Group and PK Verleger LLC;

• “Nonproliferation and Nuclear Weapons in the New Century” by Sergei Karaganov;

• “Nonproliferation and the Denuclearization of Russia” by Karl Kaiser; and

• “The G-8 and Iraq” by John Chipman.

As noted at the outset, this report was adopted unanimously by the 23 participants in the Preparatory Conference. 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 in Genoa. We plan to meet annually in an effort to support future summits as well, including in Canada in 2002. Our group expresses its deep gratitude to the Nippon and Tokyo Foundations for initiating the project and for making it possible, to the staffs of the Tokyo Foundation and the Institute for International Economics for carrying it out, and to the Italian Institute of International Affairs and San Paolo/IMI Bank for hosting the Preparatory Conference throughout 2001.

C. Fred Bergsten
Director
Institute for International Economics

Rainer Masera
Director-General
San Paolo/IMI Bank

Heizo Takenaka
President
The Tokyo Foundation
TOWARD SHARED RESPONSIBILITY AND GLOBAL LEADERSHIP

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

STRATEGIC THEMES

We urge the G-8 Leaders to focus on a very small number of major strategic themes in their personal discussions at the upcoming, and future, summit meetings. They should not dissipate their energies across a laundry list of topics of more modest importance. Those issues can be left to the Foreign Ministers and Finance Ministers. In many cases, they can be handled by the sherpas as they oversee implementation of G-8 decisions taken in earlier years.

We believe that four themes should be paramount at Genoa. First, the summit must start the process of reinvigorating the multilateral economic system. The core institutions of that system, the International Monetary Fund and the World Trade Organization, are under unprecedented attack—from both demonstrators in the streets and, much more important, from many of their own member governments. They are criticized for being too powerful, and thus eroding national sovereignty; for failing to meet their most fundamental objectives—preventing global monetary crises and effectively resolving international trade disputes, respectively; and for not acting in several areas, such as labor standards, the environment, poverty, and inequality where they do not have a specific mandate or expertise.

In addition, regional initiatives in all three parts of the G-8 world could threaten the global system that has been constructed so painstakingly, and with such benefits in both economic and political terms, over the past half century if they are not embedded in strong, credible multilateral rules and institutions. Those institutions, and the international rules that they seek to carry out, have suffered serious erosion in recent years and must be revived.

Second, and closely related, the G-8 must begin organizing a new structure of shared and more collective responsibility and leadership for the 21st century. The world economy has become multipolar: East Asia, Europe, and North America account for roughly equal shares of global output. Many developing countries are now major players in the world system as well. The techniques for leading the divided world of the Cold War must be replaced by new methods for leading the interdependent world of today. Equitable burdensharing is required if the
necessary leadership (and followership) is to emerge on a sustained basis, not least to restore domestic support for such leadership in key countries. The multilateral focus emphasized above can only prosper, indeed survive, with such a focus.

Third, the summit must address the threat of severe conflict between the United States and Europe. The two economic superpowers are at loggerheads over a rapidly growing number of increasingly important economic issues, especially in the trade arena but extending as well to energy, the environment, and other central topics. They also face a daunting security agenda that challenges some of the basic tenets of postwar stability. These difficulties occur at both the bilateral level and where the two interact in the global context, as in the WTO and the nonproliferation regime. Other regions, notably including East Asia and the developing countries, are obviously of critical importance but the world can be neither prosperous nor secure unless the current array of transatlantic frictions are substantially resolved.

Fourth, the leaders must link the economic and security issues that pervade these other themes. Only the leaders can make the essential connections, both within the issue-areas (e.g., money and trade) and across these two overarching dimensions of global affairs. They must view the looming economic and security problems together if they are to effectively resolve the threats to multilateralism, the tensions between America and Europe, and the erosion of leadership.

With these themes in mind, we recommend that Genoa attach the highest priority to eight sets of specific actions. Attached are background papers that elaborate our ideas in greater detail on several of these topics.

TRADE

The G-8 Leaders should commit to launch a new round of multilateral trade negotiations in the World Trade Organization at the ministerial conference in Qatar in November. Only a major new multilateral round can restart the momentum of global liberalization that is essential to avoid new outbreaks of protectionism and mercantilism, especially as the world economy slows and unemployment rises in key countries including the United States and Japan. Only a new round can strengthen the global umbrella and thus resolve the global risks posed by the escalating tendencies toward regionalism, as manifest in the planned launch of intensive negotiations to create a Free Trade Area of the Americas and the serious intergovernmental studies of an East Asia Free Trade Area as well as the continued expansion of the European Union. The political window for launching a round may be very narrow in some of the key countries, including the United States and France, and the initiative must be pursued this year. This is why it is so important for the new United States administration to receive simultaneously from the Congress the Trade Promotion Authority for the next multilateral round of trade negotiations and for the
proposed Free Trade Area of the Americas. Active engagement in the new round by the developing countries is essential. The G-8 must therefore assist them to participate fully in WTO activities, including through financial support for implementation of their prior commitments and for their planning for the future. G-8 countries must fully open their markets to the poorest countries. They must initiate a new dialogue to restore relations based on mutual confidence that the agenda of the new round will take into account the interests of all WTO members.

A new round offers enormous opportunities to broaden the benefits from the information technology revolution and thus to reduce the “digital divide”. To do so, the round should give high priority to further liberalization of telecommunications services, financial services, and transportation services (including civilian aviation and commercial shipping)—all of which represent key components of the e-commerce infrastructure. Indeed, the critical need to spread the benefits of e-commerce throughout the world argues for attaching the highest priority to services negotiations in the new round. Here too, developing countries must be assisted so that they can participate fully in both the negotiations and the resulting benefits.

In addition, the United States and the European Union should declare an informal bilateral truce in their commercial conflicts by announcing a three-year moratorium on any new retaliations. They should commit themselves to negotiations, largely through the new round, instead of litigation as the solution to the bulk of their bilateral problems. The proposed moratorium would provide time to work out the panoply of outstanding bilateral disputes through the round.

GLOBAL GOVERNANCE

The legitimacy of the current global governance regime is being sharply questioned in many quarters. This challenge takes numerous forms but there are two recurring themes. One is whether the institutions that seek to manage the global economy, including the G-8 itself, are sufficiently representative in today’s pluralistic world where a growing number of countries play important roles and therefore must participate. A second is whether all of the crucial functional issues that require ongoing international cooperation are being addressed by effective organizational arrangements.

Several steps are needed to rectify the problems of global legitimacy. The national quotas at the IMF and World Bank need to be updated to better reflect the enormous changes in the international distribution of economic performance that have occurred since their founding formulas were constructed in the 1940s, particularly to enhance the participation of East Asia. The WTO needs to include all its members in every stage of its decision-making process.

In addition, the G-8 Leaders should invite leaders of the G-20, whose Finance Ministers have already
begun to meet, to join them at their 2002 summit in Canada (and periodically thereafter). This dramatic step would greatly enhance the legitimacy of global governance and hence of the overall globalization process. G-8 cooperation, even if substantially improved, is no longer sufficient and G-20 summits could help move significantly toward the needed collective leadership. The G-20 includes regionally significant countries outside the G-7 and a number of the most important emerging-market economies—including Brazil, China, India, and Mexico—whose active participation in the process is essential if global leadership is to be both effective and legitimate in the future. At least one of the least developed countries should be added as well.

The G-8 should also propose the creation of a Global Environmental Organization (GEO), at the “Rio + 10” conference in 2002, to replace the existing international environmental organizations. Effective collective action is urgently needed to remedy a series of global environmental threats ranging from climate change to biodiversity to the depletion of ocean fisheries. Even the most powerful national governments cannot handle these problems but the existing institutions, most of which predate a full appreciation of the scope of the issues, are grossly inadequate. A new GEO, in addition to addressing one of the most glaring gaps in the international institutional framework, could significantly reduce costs and streamline the current far-flung and uncoordinated international environmental bureaucracy.

In addition, a GEO could help provide synergies across different environmental issues (e.g., that the chlorofluorocarbons that deplete the ozone layer also add to global warming). It could deal with the “trade and environment” issue by creating a counterweight environmental institution and by taking some of the pressure off the WTO to go beyond its own mandate and expertise. It could start the process of resolving the deep global divisions over climate change, including between the United States and Europe, and thus contribute importantly to restoring collective global leadership in this domain.

GLOBAL POVERTY

The G-8 has made major progress in providing debt relief for the world’s poorest countries, whose incomes and health expenditures per capita are only 1 percent of those in the high-income nations. It should now mount a further and broader attack on global poverty to achieve the goals set by the Millennium 2000 summit. These goals included cutting in half by 2015 the proportion of the world’s population whose income is less than $1 per day, the proportion who are hungry, and the proportion who are unable to reach or afford safe drinking water. They also aim to provide full primary schooling for all children everywhere and reduction of maternal mortality by three quarters.

These pledges need to be translated into action. The G-8 should therefore take several steps. First, it
should significantly increase and carefully target its foreign assistance to widely improve health and education prospects for the poorest people (which includes most of the population of 600 million in the poorest countries and another 1 billion in countries whose average income levels are higher). It would cost about $20 billion in additional aid, or about 0.1 percent of the aggregate GDP of the high-income countries, to meet the basic health needs of the poorest countries (mainly in sub-Saharan Africa) and to provide their people with universal secondary education by the end of this decade.

Second, high-income countries should eliminate their barriers to exports from the least developed nations. Export-led growth is necessary for long-term development and, though the poorest countries will be unable to take full advantage of world markets for some time, they should be given full opportunity to do so.

Third, the G-8 should adopt specific measures to narrow the “digital divide.” As noted above, the G-8 should liberalize its own telecommunications, financial services, and distribution sectors—and should encourage developing countries to do so as well. The G-8 should sponsor, within the Digital Opportunity Task Force (DOTForce) created by the Okinawa Charter, a series of “Internet e-government teams” to help government agencies in poor countries reap the benefits of Internet use. The G-8 should compile and highlight IT best-practices and success stories that have already been recorded in individual developing countries. They should help the poorest countries produce their own “IT readiness assessments” and launch pilot projects in areas such as maintaining primary health care facilities throughout sub-Saharan Africa.

The poorest countries will of course have to adopt reforms of their own to take advantage of such assistance and new opportunities. They must make education and disease control their highest national priorities, as a few have already done. They must drastically improve their own governance. They must redirect their own policy priorities to accord with the outside help. The G-8 should actively promote such changes with its offers of assistance and thereby seek to achieve a truly global attack on poverty “beyond debt relief”.

AGING

The Genoa meeting should call a special Summit on Global Aging, or at least create a special task force or working group, to draw attention to, and begin to address substantively, a central and certain problem that will face all of the G-8 societies (especially host Italy) in coming decades. The ratio of working taxpayers to retired pensioners in the developed world will drop from 3:1 today to 1.5:1 in 2030, absent reforms, and to 1:1 or even lower in some European countries. The bill for public retirement benefits (pensions and health care) will rise by 9-16 percent of GDP. The increased cost of these programs would take an extra 25-40 percent of every worker’s wages,
including in countries where payroll taxes already exceed 40 percent. The unfunded liabilities of the developed countries for these programs already approximate $70 trillion—six times more than their official public debts.

This problem will only eventuate over several decades (although some countries, notably Japan and Italy, will begin to experience substantial effects before 2010). The costs of dealing with the problem will be explosive and indeed inconceivable, however, if preventative action continues to be ignored. By contrast, early adoption of a series of well-known remedies (including later retirement, increased immigration, limiting benefits to the financially needy and mandatory private savings plans) can significantly smooth the transition and limit the pain. The overriding requirement is to overcome the daunting domestic politics of the issue and to launch that process soon.

A Summit on Global Aging, convened either by the G-8 itself or perhaps by the new G-20 (since many emerging-market economies will also face the problem, perhaps even more rapidly albeit a bit later), could generate the concerted attention that only summits can provide. The Genoa meeting should start educating our populations about the severity of the rapid demographic changes that are now occurring. It could share national experiences in responding to them, especially with respect to the huge unfunded liabilities of pension and health care systems. It could set common goals. Most important, it could provide mutual political support for the adoption of measures that will be controversial and unpopular even when obviously necessary.

THE WORLD ECONOMY

The final economic issue we would commend to the G-8 for possible consideration in Genoa is the state of the world economy itself. We of course cannot foresee the economic situation that will prevail in July. Hence we would not presume to propose a detailed strategy at this time.

We would note two relevant considerations, however. First, the world economic outlook is more uncertain than at any time in the past decade. The two largest national economies, the United States and Japan, could be in simultaneous recession. The external deficit of the United States exceeds 4 per cent of its GNP and has thus entered the traditional danger zone, possibly precipitating a sharp fall in the dollar—which would destabilize both the American and many foreign economies. Other markets remain very volatile and could provide new disruptions between now and Genoa.

Second, we recall that the original summits were devoted primarily to these global economic issues. Those summits fashioned and implemented effective cooperative programs for strengthening the world economy in both the late 1970s and the mid 1980s. It may be necessary for the G-7 (in this case, rather than the G-8) to return to this focus in Genoa if world events do not stabilize sufficiently by that time.
SECURITY

On the security side, the G-8 should reexamine the nonproliferation regime. The central global security problem is the erosion of that regime. Treaties and understandings governing the nonproliferation regime are under challenge both from actual and potential proliferators, and from those who would wish to prevent proliferation but have doubts about the effectiveness of the existing law-based instruments for doing so. The credibility of the larger industrial states is under challenge from many in the developing world who are concerned that the nonproliferation regime is being eroded and that the official holders of nuclear weapons are not doing enough to progressively reduce their stockpiles.

Against that background it will be necessary for the official holders of nuclear weapons to reassert their interest in reducing the place of nuclear weapons in national military doctrine.

The official nuclear weapons states should seize every opportunity to reduce the size of their stockpiles. They should reassert the moratorium on nuclear testing to which each has committed itself, and adhere to the terms of the Comprehensive Test Ban Treaty even in the absence of its ratification by all original signatories. Negotiations for the Fissile Material Cut-Off Treaty must proceed with vigor and with a determination to conclude treaty negotiations as soon as possible.

There is an urgent need to debate more fully and more openly among allies and other concerned states actual and prospective plans for national and theatre missile defense.

The United States is the only power in the world with both global interests and a global capacity to advance and defend those interests. Its unique role means that it must consider the full spectrum of threats and the full spectrum of possible responses. The G-8 agrees that the problem of ballistic missile proliferation is of growing concern. All equally agree that we no longer live in a bipolar world where the strategic balance of power between two states governs international security. All agree that as strategic situations evolve there is a need to adapt policies, and attitudes, and force structures to meet new challenges. Therefore the G-8 must welcome a debate in which the issues of the relationship between offensive and defensive nuclear systems are looked at anew. There is a need for more transparency in explaining actual or potential plans and to ensure that national plans for national missile defense add rather than detract from international security. As allies of the United States consider theatre missile defense programs, the same principles should apply.

Clearly the continued proliferation of ballistic missiles is a major international security problem. The indigenous development or international procurement of ballistic missiles by states that have active programs to develop new weapons of mass destruction is hugely destabilizing. Unchecked, ballistic missile prolifera-
tion could lead to important regional insecurities and new arms races. It is an urgent task of all G-8 member states to do everything in their power to prevent and deter the spread of ballistic missiles. Strict adherence to the MTCR is essential. States must in their bilateral relations with potential proliferators raise the saliency of the ballistic missile proliferation risk. Every diplomatic effort should be made to render futile and counter productive the further spread of ballistic missile technology. It must be recognized that failure to arrest the spread of ballistic missiles and to reduce the provocative deployment of ballistic missiles can only lead to the intensification of programs for national and theatre missile defense.

Special attention must be devoted to North Korea, Iran, and Iraq. In all three cases it is important that G-8 countries consult and coordinate on their bilateral diplomacy. It is wrong for the United States to be left alone to police and manage nonproliferation policy toward these three countries. Splits between the G-8 on nonproliferation approaches can cripple any attempts at effective policies. It should become an urgent priority of G-8 states to consult more regularly on nonproliferation approaches to avoid unnecessary divisions in policy approaches.

The G-8 should call on North Korea to halt exports of ballistic missile technology and indicate that the prospects of further political and diplomatic engagement will improve if North Korea commits itself more fully to the goal of nonproliferation.

It is insufficient for North Korea merely to stick to its commitment to halt testing of ballistic missiles, though its indication that it might abandon this commitment needs to be strongly resisted. Only a clear and verifiable commitment to end export of ballistic missiles and the technology helpful to their development can satisfy the international community that North Korea is determined to spend its scarce resources wisely and develop an economy that can serve its people wisely.

The G-8 should call on Iran to declare a moratorium on long range ballistic missile development and testing. Long range ballistic missiles are unnecessary for Iran's defense needs and pose a threat to regional stability. The G-8 should express their desire for starting and, where they exist, deepening government-to-government contacts. Such deeper engagement would be facilitated by evidence that the Iranian government wished to become a partner in nonproliferation efforts. Iran has much to gain from closer political and economic engagement with G-8 countries. Iran could play a positive role in the regional security of the Gulf and this role could be more obviously recognized once Iran restrains its weapons of mass destruction (WMD) program and related technologies.

Containing Iran's ambitions to develop WMD and related delivery systems will be made easier by the establishment of a more effective and intrusive mechanism to control and eliminate Iraq's WMD programs.
Iraq’s weapons of mass destruction program poses the most urgent and dangerous risk to regional and international stability. That program has not been under adequate supervision as mandated by UNSC resolutions for two years and there is strong evidence that Iraq’s biological and chemical weapons programs are now being developed with greater vigor.

It is necessary for the G-8 to urge the UNSC to form a new consensus on a fresh approach to the Iraq problem. The strategic goals of such a new approach would be to ensure 1) that Iraq cannot pose a threat to the territorial integrity of its neighbors or to their development and export of oil and 2) that Iraq remain unable to reconstitute its weapons of mass destruction program. Both the nature of the sanctions regime now operating with respect to Iraq and the proposed inspections regime contemplated by UNSCR 1284 need to reviewed. The principles and policies around which a new consensus should develop need to include the following:

First, a sanctions regime should be developed that as much as possible targets the regime, rather than the people, and is focused on preventing Iraq from using revenue to reconstitute its WMD program. Second, an inspections regime should be established that has a real chance to discover and destroy Iraq’s WMD program (as mandated by numerous UNSC resolutions). It should be acknowledged that the ceasefire that ended the conflict between the US-led coalition and Iraq in 1991 was in effect conditional on Iraq’s compliance with subsequent UNSC resolutions, which the country has consistently flouted.

Against that background, the G-8 should try to develop consensus among themselves, that could be reflected also in the policy of the UNSC, around the following approach:

1. All financial controls on Iraq’s oil revenues remain intact and the ban on import of all arms and all dual use items be policed with greater vigor. Success will depend on ensuring no leakage of oil exports from Iraq that circumvent the approved system of payments into a UN-managed escrow account. It will be necessary also to develop a more precise list of prohibited items that may have a ‘dual use’ function.

2. In that context, the UN needs to develop a set of ‘smart sanctions’ that targets more effectively the regime and its ambitions. Imports of items that are clearly intended to maintain loyalty of the ruling clan to the leader, and funds that support those imports, need to be controlled where possible.

3. The relaxation of purely economic sanctions should take place in the context of Iraq agreeing to a genuine and workable inspection regime. While the preservation of economic sanctions could constrain the way in which the Iraqi government uses marginal funds, their lifting is necessary to maintain wider coalition support for a more robust policy on the nonproliferation goals. Equally, the lifting of such sanctions would permanently remove the argument, even if false, that the existing sanctions policy tar-
geted the Iraqi people rather than its leadership. Any suffering of the Iraqi people would more obviously be seen to be the result of policies pursued by their leadership rather than those advanced by the international community.

4. G-8 states should accept that selective military strikes to enforce compliance with the weapons inspection regime or to eliminate capacities identified by the inspections regime need to be part of the overall strategy if success is to be secured.

Finally, the G-7 must agree on a clear program of work to reduce the threat of nuclear weapons and materials in Russia.

G-7 countries must deliver on their commitment to develop an international financing plan and multilateral framework for cooperation on plutonium disposition. (This should be focused on building an industrial scale MOX plant in Russia, and modifying existing Russian reactors.) A financial schedule must be agreed to at the Genoa summit and contributions of all G-7 countries secured. Wider international support could be obtained against this background. The G-7 should examine the ways to facilitate private-sector contributions to plutonium disposition projects.

The G-7 should also consider further financial support to strengthen accounting and security for civilian plutonium stocks in Russia. Efforts could also be internationalized to fund and build onshore storage facilities for spent fuel from decommissioned nuclear submarines.

More broadly, the G-7 needs to consult extensively on means to ensure that Russian experts on WMD do not sell their services to countries intent on proliferation. There is considerable international concern about Russian assistance to Iran and to India. It is recognized that much of that assistance is profit-motivated and therefore G-7 countries need to consult more closely on programs and policies that can be developed to alleviate the need for such trade.

In that context, the G-7 should support the idea of long-range research on the feasibility of Russian proposals to build so-called 'proliferant resistant' reactors but, as the need for such reactors is not yet proven, there should be no commitment of funds to support actual development costs.

Against that background, a statement of principles regarding trade in nuclear relevant materials needs to be developed at the G-8 level.
MEMBERS OF THE G-8 PREPARATORY CONFERENCE

C. Fred Bergsten, Co-chairman
Institute for International Economics

Gianni Bonvicini
Istituto Affari Internazionali

Leon Brittan
Warburg Dillon Read

John Chipman
International Institute for Strategic Studies, London

Wendy Dobson
Institute for International Business, University of Toronto

Boris Fedorov
Former Minister of Finance, Russia

David Folkerts-Landau
Deutsche Bank

Yoichi Funabashi
Asahi Shimbun

Paolo Guerrieri
Istituto Affari Internazionali

Toyoo Gyohten
Institute for International Monetary Affairs, Tokyo

Karl Kaiser
German Council on Foreign Relations

Sergei Karaganov
Council on Foreign and Defense Policy, Russia

Henry A. Kissinger
Former Secretary of State

Rainer Masera, Co-chairman
San Paolo/IMI

Barbara McDougall
Canadian Institute of International Affairs

Cesare Merlini
Istituto Affari Internazionali

Patrick Messerlin
Groupe d’Economie Mondiale de Sciences Politiques

Thierry de Montbrial
Institut Français des Relations Internationales

Peter G. Peterson
The Blackstone Group

Richard Portes
Centre for Economic Policy Research, London

Heizo Takenaka, Co-chairman
The Tokyo Foundation/Keio University

Paul Volcker
Former Chairman of the Federal Reserve Board
ABOUT THE SPONSORS

THE TOKYO FOUNDATION

The Tokyo Foundation is Japan's first genuinely independent think tank. It is a private, nonprofit institution that is forging collaborative networks with scholars, government officials, politicians, journalists, and other policy specialists. It will take the lead in conducting policy research and disseminating its results to the broader society. The Foundation will try to act as a trailblazer in creating an environment conducive to the development of other think tanks and the mutual fostering of high-caliber policy research, hence adding new dimensions of plurality and competition to Japan's policy making process.

The Tokyo Foundation was established in July 1997. The Nippon Foundation and its affiliated organizations made generous contributions to the establishment of its endowment.

INSTITUTE FOR INTERNATIONAL ECONOMICS

The Institute for International Economics is a private, nonprofit, nonpartisan research institution located in Washington, DC, and devoted to the study of international economic policy. Since 1981, the Institute has provided timely, objective analyses of key international economic problems and proposed concrete solutions to them.

The Institute attempts to anticipate emerging issues and to be ready with practical ideas and specific suggestions to shape and inform the public debate for government officials and legislators, management and staff at international economic organizations, business and labor leaders, the media, university-based scholars and their students, and the interested public at large. It addresses audiences in both the United States and around the world.

The Institute was launched by a generous grant from the German Marshall Fund of the United States. Financial backing for its annual budget of about $6 million comes primarily from charitable foundations, private firms, individuals, and the Institute's earnings from sales of its publications and on its endowment.
THE NIPPON FOUNDATION

The Nippon Foundation was established in 1962 as a private, nonprofit, grant-making organization. The Foundation has created the largest philanthropic organization in the world, supporting projects in Japan and overseas. It funds four types of activities: social welfare and public health, volunteer support, maritime shipping and development, and overseas assistance. Under this last category, the Foundation has disbursed more than $1 billion in project assistance in more than one hundred countries since 1971. The Nippon Foundation is financed by 3.3 percent of the revenues from motorboat racing in Japan.

INSTITUTE FOR INTERNATIONAL AFFAIRS

The Istituto Affari Internazionali is a nonprofit organization funded by individual and corporate members, public and private organizations, major international foundations, and by a standing grant from the Italian Ministry of Foreign Affairs.

The main objective of the Institute is to promote understanding of the problems of international economics and politics through studies, research, meetings and publications, with the aim of increasing the opportunities of all countries to move in the direction of supranational organization, democratic freedom, and social justice.

The Institute was founded on 11 October 1965 on the initiative of Altiero Spinelli, its first director, with the support of the Fondazione Adriano Olivetti, the Associazione di cultura e politica “Il Mulino”, Centri Studi “Nord e Sud,” and the Ford Foundation.
LAUNCHING A NEW TRADE ROUND AT THE WTO: THE ROLE OF THE GENOA SUMMIT

By C. Fred Bergsten

THE OBJECTIVES

The launch of a new round of multilateral trade negotiations in the World Trade Organization is a matter of urgent necessity for the reasons spelled out in the full Report of the G-8 Preparatory Conference. It is essential to restart the momentum of global liberalization in order to avoid new outbreaks of protectionism and mercantilism, especially as the world economy slows and unemployment rises in key countries including the United States and Japan. It is equally essential to strengthen the global umbrella that alone can resolve the risks posed by the rapid escalation of regional arrangements around the world, including a Free Trade Area of the Americas and possibly an East Asian Free Trade Area as well as the continued expansion of the European Union.

In particular, the large number of increasingly sizable trade disputes between the United States and the European Union need to be subsumed within the broader framework of a multilateral round. In many instances, negotiated solutions to US-EU disputes would be more preferable than continued litigation. A round can directly address a number of the US-EU issues including tax policy, aircraft subsidies, and implementation of decisions under the dispute settlement mechanism. It can provide a much more hospitable climate for resolving the other major clashes between the two economic superpowers.

It is essential to understand what the G-7 needs to do in this area at Genoa and what it does not need to do. The G-7 does not need to negotiate the substance of the new round. One of the key problems at the WTO Ministerial Conference in Seattle was that some of the major countries attempted to move much further toward resolution of contentious issues, such as agricultural subsidies, than is necessary at this initial stage of the exercise.

The G-7 needs to do two things at Genoa. One is to agree on the agenda of topics to be included. It would be as great a mistake to declare the launch of a new round without a clear agenda as to fail to address the issue altogether.

---

1 The G-7 is the relevant grouping since Russia is not an important player on this issue and is in fact not yet a member of the WTO.
The correct formula for setting the agenda is comprehensiveness. To be successful, the round must encompass the widest possible range of issues in order to permit tradeoffs that will enable all participants to realize their priority objectives. This means that all countries must agree to address issues that are uncomfortable to them because it is these issues that are likely to be of greatest interest to other participants. For example, “new issues” like competition policy and investment need to be included whether or not they are likely to lead to substantively significant outcomes. So do antidumping and other safeguard measures. The “trade and…” complex, including labor standards and the environment, must be addressed as well even if the WTO is not the primary forum for international efforts on these issues. But, to repeat, the G-7 at Genoa does not need to resolve these issues or even address them in any substantive depth; they need simply to agree that they will be considered in the new round.

The only argument against comprehensiveness is that a round with a large agenda could take “too long” to complete and thus lose credibility around the world. A lengthy duration for the talks actually has some merit, however, because the process itself maintains much of the forward momentum that is needed to combat backsliding. If concrete results are needed periodically to maintain the credibility of the process, the answer is to craft “roundups” that forge full or partial results on subsets of issues without prejudicing the eventual compilation of the comprehensive package deals that are required for complete success.

The second, and crucial, responsibility of the G-7 at Genoa is to provide the political impetus that will be necessary to launch the round at the WTO Ministerial Conference in Qatar in November. Substantial international consensus, and indeed pressure, will be required to overcome strong domestic resistance within many countries to further trade liberalization. Only the heads of state and government can provide such a catalyst.

The G-7 has played this role very successfully in the past. Some of the founding fathers of the summit process in fact saw its main rationale as deterring the leaders from protectionist policies. The Bonn Summit in 1978 was pivotal to the success of the Tokyo Round in 1979; negotiators for some of the key countries subsequently testified that the negotiations would never have succeeded without the push from the leaders. Through repeated efforts in the early 1990s the leaders kept the Uruguay Round negotiations going through global recession, held protectionism at bay, ensured agreement on a binding dispute settlement mechanism and the institutional breakthrough of creating the World Trade Organization itself, and in 1993 finally provided the pressure that drove the trade ministers to strike the essential deal on agriculture and market access. All histories of the G-7 concur that trade has been one of its issue-areas of greatest impact, perhaps the greatest of all the topics it has addressed over the years. The Genoa Summit provides both an opportunity to build on, and expand, this record and to provide crucial leadership on a central issue.
THE PRENEGOTIATION REQUIREMENTS

Just as it would be premature for the G-7 itself to try to resolve the substance of a future round, it would be premature for us to lay out a full blueprint at this time. We can nevertheless suggest the broad outlines of both the negotiations and a possible package that might emerge at the end of the process.

Even prior to launching the round, and to help promote its launch, the WTO needs to be adopting two sets of measures. One would respond to the concerns of many developing countries, particularly the poorest among them. These countries feel that they are disadvantaged rather than benefited by the WTO system; the rich countries should therefore open their markets fully and immediately to the poorest countries, on a unilateral basis, and commit themselves to making sure that the new round liberalizes substantially for all developing countries. In addition, many developing countries, particularly the poorest, are incapable—both financially and in terms of personnel—of participating effectively in regular WTO proceedings let alone complex new negotiations; the rich countries should thus immediately provide training and financial support for them. Moreover, many developing countries feel they are excluded from the key negotiations, in contrast to the favored “green room” countries; the WTO should thus indicate its readiness, preferably before the start of a new round, to create a new decision-making structure that would provide fair representation for all groups of countries.

The second set of needed prenegotiation reforms is to open the procedures of the WTO itself in order to further “democratize” the institution. The organization’s meetings, dispute settlement panels, and review mechanisms need to be made more transparent through much greater disclosure of their proceedings. In addition, the WTO should hold annual symposia to deepen dialogue between WTO members and the NGO communities. Simple procedural changes can play an important role in reducing the hostility toward the WTO now exhibited by a number of its NGO critics.

These two sets of changes are already being addressed by the WTO and should proceed as rapidly as possible. Significant progress on them could go far to restore confidence in the organization by both its developing country members and by numerous nongovernmental groups, thus helping to pave the way for a new round. The G-7 at Genoa should indicate its strong support for these reforms and urge the WTO to take them as far as possible as quickly as possible.

The other prenegotiation requirements relate to the internal procedures of some of the key countries. The US Administration, for example, will either have to win congressional approval of fast-track negotiating authority or at least provide a reasonable prospect of doing so in the near future; the round can begin without the passage of fast track but the rest of the world will be unwilling to negotiate seriously with the United States if the domestic political stalemate that has blocked effective US participation for several years
looks likely to continue. The United States will also have to exhibit a willingness to put its most sensitive trade issues, such as its antidumping procedures and high apparel tariffs, on the table.

For its part, the European Union will have to be prepared to liberalize its agricultural support policies, particularly in the context of broadening its membership. Japan and Korea will have to reduce their agricultural trade barriers, accept more foreign direct investment, and inject much larger doses of competition into their markets. The developing countries will have to participate in the round’s “single undertaking,” thereby committing to much deeper reductions in their barriers than the industrial countries (from their much higher bases of protection).

It will also be essential for all of the new regional initiatives to make clear their willingness, indeed their insistence on, activating a new round of WTO liberalization as well. In fact, the Third Summit of the Americas in April (Quebec) and the annual APEC Leaders’ Meeting in October (Shanghai) can provide substantial impetus toward Qatar by coupling their own new negotiations to the round. The principles of “open regionalism” indeed require such an approach, which can be extremely helpful for the broader enterprise.

THE SUBSTANTIVE AGENDA

The substance of the round itself should entail three broad sets of issues: further trade liberalization, incorporation of an additional set of “new issues” into the WTO framework, and institutional reforms including those just addressed. A judicious blend of these topics will be critical to draw all key members of the WTO, including the developing countries, into the new round.

The substantive agenda should include three key topics. Industrial tariffs have been reduced substantially over time but key exceptions remain. Setting a goal of “free trade in all industrial products by the industrial countries by 2015,” or some other date certain, would be a good way for the G-7 at Genoa to energize this part of the negotiation.

Services were “brought into the WTO” by the Uruguay Round but very little liberalization was achieved. New negotiations already began in early 2000 under the WTO’s “built-in agenda.” However, they are unlikely to make much progress until embedded in the broader context of a round. Further liberalization of some key service sectors, such as telecommunications and finance, can play a major role in bringing the “IT revolution” to developing countries and go far to help bridge the “digital divide”.

Agriculture also achieved little liberalization in the Uruguay Round though the conversion of many
previous nontariff barriers to tariffs “teed up” the sector for future progress. Hence the membership agreed to pursue “further progressive reductions” and talks to do so began in March 2000. The agenda will have to again include export subsidies, domestic subsidies, and market access. Trade in genetically modified organisms (GMOs) and the nontrade objectives of agriculture (“multifunctionality”) will have to be addressed as well.

Some of the “new issues” are not so new—but bringing them effectively into the global trading system would be. Competition policy for example, lies at the heart of many “trade disputes” across both the Atlantic and Pacific and there is a new-found interest on the part of competition authorities in a number of the major countries to address it multilaterally. Investment policy, by contrast, failed to achieve an agreement in the OECD a few years ago and may not be ripe for major new international action; the most practical course may be to simply expand the existing investment aspects of the services and trade-related investment measure (TRIMs) accords from the Uruguay Round.

Labor and environmental standards are of course among the most controversial topics. The basic issues are (1) whether the WTO, as opposed to functionally specific institutions that address labor and environment directly, has a role to play on them (e.g., by broadening the definition of “forced labor” in Article XX) and (2) if it does, whether trade measures should be used to help enforce compliance with internationally agreed labor and environmental standards (e.g., the Montreal Protocol that prohibits countries from contributing to further ozone depletion by banning the use of chlorofluorocarbons). It must of course be agreed that any new labor and environmental standards cannot be used to restrict trade.

The third category of issues for the needed round is institutional reform. Many of these issues, as noted above, need at least some progress prior to the launch of the new round in order to restore confidence in the WTO in key quarters. Those efforts will undoubtedly need to continue in the round itself, however, to achieve adequate progress to assure successful completion of the enterprise.

For example, the round will have to address revealed shortcomings in the dispute settlement mechanism. On balance, the DSM has been a great success. It has important flaws, however, particularly with respect to implementation of its decisions—a major course of contention between the United States and the European Union. These are sufficiently important topics that their resolution will probably require both the time and context of a broader negotiation.

Moreover, the process for enabling a broader group of countries to participate effectively in the decision-making process of the WTO will probably also need to be included in the new negotiations. The creation of a small but representative steering group could represent a breakthrough in the “democratization” of
the organization. It could thus play a vital role in promoting a successful outcome for a new round, especially to include the developing countries.

CONCLUSION

The elements of the agenda for a new WTO round are reasonably clear (though, during the course of the negotiations, other topics may of course have to be added). The need to launch a major effort to address them is equally clear. The requirement now is the requisite political will to begin that effort as quickly as possible.

Trade is the most obvious issue that now requires strong collective leadership to defend and strengthen the multilateral process. It is also the issue on which the G-7 has provided the most continuous and effective leadership over its 25-year history. It is thus a natural for decisive action at Genoa. A failure to move on this issue, by contrast, would pose severe risks of systemic erosion and probably induce a further burst of regionalism that could prove hugely destructive in security as well as economic terms. Trade will be a critical test for the G-7 at Genoa in July.
BROADENING PARTICIPATION IN G-7 SUMMITS

By Wendy Dobson

When they began in 1975, the purpose of summits was to develop the basis for collective action on issues of common concern. Over the years, serious observers have come to see the G-7 as a club of like-minded and of the world’s major economies that can act as the world’s “executive committee” if and when necessary.

The G-7 is a construct of Cold War leadership for a divided world, however. Including Russia in 1997 in the Summit of the Eight in Denver was an expedient move to reconcile Russia to the expansion of NATO membership. The resulting process is awkward but it is not unworkable. Since 1998, leaders have insisted on changes to the format of their meetings to provide them with more time to meet alone, without officials, for less structured and unscripted discussion among themselves.

A quarter of a century after summits began, the central challenge for leaders has changed. Today the challenge is to provide the leadership to manage an integrated world in which cross-border flows of trade, capital, technology, and ideas are growing; in which market competition is intensifying; in which inequality of wealth and opportunity among nations is increasing. It is also one in which the nuclear nonproliferation regime is eroding and in which security and economic issues are closely linked. These changes associated with integration are the source of popular unease and questioning of the adequacy and legitimacy of existing governance frameworks.

Meeting today’s challenges requires different leadership and structures. A G-3 or G-7 “directorate” is no longer acceptable. The new leadership must be collective. Collective leadership does not mean less leadership. It means different leadership, requiring consensus among a wider group. The locus of world economic activity is multi-polar, including Europe and Asia. Some of the most serious economic challenges lie in the developing countries, many of which are in Africa. The central global security problem is the erosion of the nuclear nonproliferation regime as new challengers and new threats emerge. Ways also need to be found to improve relationships between

\[1\] This paper draws on contributions by Renato Ruggiero, Yoichi Funabashi, and Sergei Karaganov.
governments and genuine and legitimate representatives of civil society. The alternative is leadership paralysis and lack of vision in the face of the challenges of increasing interdependence.

**BASIC PRINCIPLES FOR A BLUEPRINT FOR CHANGE**

A blueprint for change should recognize several principles:

- Stronger global cooperation, strong and focused international institutions, and consensus-based multilateral rules should provide the basis of the global system. They are also the means to extend national sovereignty beyond national borders.

- Collective leadership reflects the reality of the multipolar world and the increasing influence of the developing nations. The advanced economies can no longer provide international leadership by themselves.

- This new leadership should operate by consensus in order to respect the emergence of new values, new interests, and to define commonly agreed goals.

- Policy issues are increasingly interconnected. The expanding web of international agreements and international institutions needs to be harmonized and integrated. Consider the linkages among economic and security issues. Inequalities in income and access to information, financial crises, and environmental degradation are all potential threats to world stability and peace.

- Improved global governance begins at home. The nation state is still the basis of governance and the source of order. National leaders and governments should involve representatives of the private sector and civil society in order to improve both the benefits of integration and to address the challenges. The responsibilities of collective leadership should be debated and channels created for communication and consensus among diverse national interests.

**ALTERNATIVE MECHANISMS TO BROADEN PARTICIPATION**

In the 1970s, summits were intended to be one-off meetings at the highest levels of government to address problems that only leaders could solve. These meetings were among the few opportunities leaders had to meet each other. Since then, G-7 summits have become regular annual events involving large bureaucracies and set agendas that seem to proliferate as leaders monitor incremental progress on persistent problems and as new issues are added. Their impacts on these problems and issues have also varied.

More recently, representatives of interest groups have
demanded to be included in the processes of summits. Summit hosts now make increasing efforts to provide transparency and access to members of civil society as well as to the media. Other innovations have included invitations by summit hosts to business leaders. Japan organized a CEO forum prior to the Okinawa summit.

Such initiatives are important precedents for broadening participation to the major nongovernmental actors on the international scene. They could be institutionalized without radical change:

- CEO forums should become regular adjuncts to summits. Forums of this kind already exist; for example, the United Nations Secretary General has established a business advisory council. APEC organizes a CEO forum as an adjunct to its leaders’ meetings. Of course, one of APEC’s purposes is to promote business facilitation within the region. The CEO forum organized by Japan as G-7 summit host established the potentially useful precedent of a functional orientation with its focus on information technology.

- NGO forums? An appropriate mechanism is also desirable for pre- or post-summit meetings with representatives of civil society. Again, the United Nations has already established a precedent with the Millennium NGO Forum. Individuals representing international civil society groups were invited. One of the outcomes was a decision to establish a permanent assembly of civil society organizations that will meet at two- or three-year intervals. NGO forums linked to summits might have a functional or problem-solving focus and invite relevant expert voluntary sector groups to participate.

Looking to the future, the central issue for leaders is to include leaders of other nations in the intergovernmental processes established over the years by the G-7. Recently, G-7 summits have developed _ad hoc_ mechanisms for consulting the leaders of other groups. For example, the Japanese chair in 2000 met with leaders of a number of development forums such as the G-77 and others prior to the summit. Before Russia became a regular G-8 member, the Russian president met with leaders after their meetings. What are reasonable objective criteria to apply to further expansion on a systematic basis? Should those who are most likely to generate crises be involved? Or should those who have the means to resolve crises be involved? The most reasonable criterion for adding other leaders has already been identified. It is the criterion of “systemic significance” used to organize the G-20 finance ministers and central bank governors. That is, the criteria for inclusion should relate to the size, influence, and potential for contributing both to negative as well as positive spillovers from these countries to their neighbors. These criteria are also forward-looking ones: the obvious candidates are those who, in the long run, will play integral roles in generating and resolving global economic and security problems.
G-20 finance ministers and central bank governors meet on a regular basis. The group was created in the wake of the 1997-98 financial and economic crises when collective action was required by governments of countries of systemic significance to draw common lessons and carry out cooperative remedial action. Twenty such economies are included: the G-7 plus Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union.2

There are two ways to build upon the G-20 precedent:

- **Convene functional groups** of ministers from the G-20 nations to address common systemic problems. Environmental degradation and climate change is one obvious area where common understanding as the basis for wider action might usefully be generated. Similar groups could be convened to address some of the pressing north-south issues. Trade issues would be a leading candidate. Poverty alleviation is another. Access to information technology is yet another.

- **Expand leaders’ meetings to include G-20 leaders.** This group (see table) includes most of the world’s largest economies (although populous countries with very small economies like Nigeria are not). It includes countries from all major regions.

Expanding the leaders’ meetings provides a reasoned and proactive response to *ad hoc* pressures, such as those being brought to bear by certain African leaders to focus global attention on the pressing humanitarian and economic problems they face. It is a way to develop relationships across the growing north-south divide. It is also a way to resolve problems generated by *ad hoc* decisions, such as the partial inclusion of Russia, which is an embarrassment to all. China is increasingly identified as too big to ignore, yet the *ad hoc* means to involve it have also generated embarrassment—and therefore rebuffs and indifference from Chinese leaders. In addition, it is a way to preempt strategic rapprochement along regional or other lines, such as between Russia and China, that could further undermine the nuclear nonproliferation regime and create new strategic threats.

There are, of course, a number of objections that can be raised. First, the UN Security Council is seen by many as the appropriate place to address security issues. Second, the G-20 is a diverse group. Expanding leaders’ meetings could diffuse the focus that the G-7 leaders currently seek; adding developing-country leaders would bring very different perspectives and objectives. Third, while most of the G-20 countries have market economies and democratically elected governments, China does not. China’s differences have provided the rationale for its exclusion from

2 The heads of the IMF and World Bank also attend. So do the Chairs of the International Monetary and Financial Committee and the Development Committee.
other forums. Some also see China as a reluctant multilateral player with its own aspirations to be the representative of developing-country interests. On the other hand, China has been a responsible member of all international forums it has joined, including the United Nations, World Bank, International Monetary Fund, and Asia Pacific Economic Cooperation forum. But for these and other reasons, expanding the G-7 club of the like-minded could put at risk its ability to accomplish concrete change.

Associated with this question is a tradeoff between the desirability of broader participation and the need for efficient management of the process (which not all consider desirable if it is exclusive of some members). Can management of summits be beefed up? G-7 governments have been notably reluctant to permit an international bureaucracy. Organization of summits is up to the host government as summits migrate in a pre-determined order among the member countries. As long as G-20 involvement is limited to functional meetings of ministers, or to periodic meetings between the G-7 and the other thirteen leaders, this procedure is likely to persist. Should G-20 summits become regular features of global diplomacy, their management will become more of an issue.

Resolving this issue does not have to be complex or difficult. Indeed, some examples exist of how such management might work. The Trilateral Commission is one example. It is a voluntary network of private-sector and academic leaders from Asia, North America, and Europe that meets on a regular basis to examine global problems and their resolution. It has an international steering committee made up of people from each region with knowledge and resources adequate to ensure the viability of the group, propose policy and program for its meetings, and to solve problems that arise. Its modest secretariat is based in each of the regions yet collaborates closely to advance the group’s goals.

The G-20 would need a steering committee. It could be constituted to include a few of the major countries with the leadership and resources necessary to monitor and address crises plus a revolving membership to ensure regional representation—and with flexibility to respond in future as the economic significance of non-G-7 countries grows. There are many models from which to choose in designing the leadership of a secretariat, but it should be a term appointment of, say 5-7 years, selected from the various regions on a revolving basis.

CONCLUSIONS

The G-7/G-8 leaders should respond to demands for broader participation in several ways. First, they should expand processes at home to consult and debate with groups demanding more say about the challenges of interdependence. Second, they should act in an incremental way by creating two forums around the G-20. One would expand the functional meetings of G-20 ministers, beyond that of finance ministers and central bank governors focused on the
global economy, to other areas where progress is urgently required on common global problems. The other G-20 forum that should be created is a periodic-but-regular meeting, either before or after G-7 summits, with leaders of the G-20 countries. Initially the goal of these meetings should be to expand G-7 leaders’ regular contact with and understanding of the aspirations and problems in the G-20. These discussions would be closely related to, but would not replace, G-7 leaders’ discussions. The long-term agenda, however, should be to work toward full inclusion of the G-20 in leaders’ meetings.

Other innovations are also desirable, such as creating regular CEO and NGO meetings linked to the summits. There is a significant tradeoff, however, between broadening the process and ensuring that it is efficiently managed. Thus, some sort of steering committee with revolving membership should be considered with resources and knowledge necessary to maintain momentum, anticipate challenges to be addressed, and head off or manage crises that arise.

These steps are ones leaders themselves should take to enhance the legitimacy of global governance and, implicitly, the legitimacy of the globalization process. The active participation of leaders in the G-20 as well as leaders of business and civil society in the summit process is essential if global leadership is to be both effective and legitimate in the future.
**ECONOMIC SIGNIFICANCE OF THE G-20 COUNTRIES, 1998**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (current billions of US dollars)</th>
<th>Share of World Trade (percent of total world exports, 1997)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>340</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Australia</td>
<td>364</td>
<td>1.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>775</td>
<td>1.0</td>
</tr>
<tr>
<td>China</td>
<td>960</td>
<td>3.2</td>
</tr>
<tr>
<td>India</td>
<td>430</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>95</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Mexico</td>
<td>425</td>
<td>2.0</td>
</tr>
<tr>
<td>Russia</td>
<td>337</td>
<td>1.5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>130</td>
<td>1.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>115</td>
<td>&lt;1</td>
</tr>
<tr>
<td>South Korea</td>
<td>320</td>
<td>2.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>190</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Canada</td>
<td>605</td>
<td>3.9</td>
</tr>
<tr>
<td>France</td>
<td>1,447</td>
<td>5.2</td>
</tr>
<tr>
<td>Germany</td>
<td>2,150</td>
<td>9.2</td>
</tr>
<tr>
<td>Italy</td>
<td>1,185</td>
<td>4.5</td>
</tr>
<tr>
<td>Japan</td>
<td>3,790</td>
<td>7.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,412</td>
<td>5.1</td>
</tr>
<tr>
<td>United States</td>
<td>8,760</td>
<td>12.4</td>
</tr>
<tr>
<td>World</td>
<td>28,445</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Collective action in response to global environmental challenges is hard to achieve yet urgently needed. From climate change to biodiversity to the depletion of ocean fisheries, the fundamental weakness of the international environmental regime seems ever more alarming. In recognition of this fact, French Prime Minister Lionel Jospin recently urged that consideration be given to establishing a Global Environmental Organization. Describing the current international governance “architecture” as deficient, Jospin argued for a restructuring and strengthening of the global-scale capacity to control pollution and manage shared natural resources. Echoing similar suggestions from former World Trade Organization Director-General Renato Ruggiero, French President Jacques Chirac, Britain’s Sir Leon Brittan, a growing number of business leaders (especially those with multinational operations), and even *The Economist* magazine, Jospin’s call highlighted the broad-based dissatisfaction with current international environmental efforts and moved the long-simmering issue of global environmental governance to the front burner.

Any initiative to revitalize global environmental governance must answer three fundamental questions: Do we need environmental efforts at the global scale? If so, can’t the UN Environment Programme do the job? Finally, what would a Global Environmental Organization (GEO) look like?

The argument for a GEO is clear both in theory and practice. Some environmental problems are worldwide in scale and cannot be adequately addressed by national governments acting on their own. From thinning of the ozone layer to the build-up of greenhouse gases in the atmosphere, we face today a number of inescapably global challenges. Moreover, advances in a range of ecological sciences continue to unveil new threats to the “global commons” that deserve attention—from airborne mercury to damaged coral reefs to disrupted hydrological systems. Stronger national or local environmental laws and programs are useful in their own right, but miss the point. Ecological interdependence is a fact. The only question is whether we will manage it thoughtfully, explicitly, and effectively—or on an unsystematic and *ad hoc* basis.
And the problem is not just environmental. Basic economics teaches that unregulated shared resources are at risk of overexploitation. Fish stocks, for instance, can be run down quickly if every fisherman tries to catch as many fish as possible as quickly as possible. Similarly, transboundary spillovers of pollution (such as SO2 emissions that drift downwind and cause acid rain or contamination of shared rivers like the Danube), if not controlled, become uninternalized externalities. These “market failures” lead to allocative inefficiency, reduced gains from trade, and lost social welfare, not to mention environmental degradation. In an economically interdependent world, collective action is required to address externalities at the scale on which they arise, making some sort of functioning global environmental regime an economic as well as an ecological necessity.

The enthusiasm of Renato Ruggiero and other leaders of the trade community for a GEO reflects this reality. In addition to protecting the integrity of the international economic system, they see the efficacy and legitimacy of the World Trade Organization undermined whenever the WTO is forced to make decisions that go beyond the scope of its trade mandate and expertise. Thus, while environmental advocates want to see a GEO as a counterweight to the WTO, many trade officials see a GEO as a useful way of unburdening the trading system of global-scale environmental decision-making responsibilities that it is ill-equipped to handle.

This raises the question: isn’t the UN Environment Programme (UNEP) up to the job? Simply put, the answer is no. The current international environmental regime is performing poorly and appears dysfunctional in important respects. From halting efforts to understand and confront the prospect of climate change to the inability to respond to questions about food made with genetically modified organisms, dissatisfaction among politicians, business people, environmentalists, and the general public abounds. Some of the current failings can be attributed to a history of management shortcomings and bureaucratic entanglements, but other aspects of the problem are deeper and more structural.

Fundamentally, UNEP’s focus and design predates a full appreciation of the international scope of pollution issues. Hampered by a narrow mandate, a modest budget, and limited political support, UNEP competes with more than a dozen other UN bodies including the Commission on Sustainable Development (CSD), the UN Development Programme (UNDP), the World Meteorological Organization (WMO), and the International Oceanographic Commission (IOC) on the international environmental scene. Adding to this fragmentation are the independent secretariats to numerous treaties including the Montreal Protocol (ozone layer protection), the Basel Convention (hazardous waste trade), the Convention on International Trade in Endangered Species (CITES), and the Climate Change Convention, all contending for limited governmental time, attention, and resources. For example, UNEP, CSD, UNDP,
WMO, as well as the Organization for Economic Cooperation and Development (OECD) and the World Bank all have climate change programs underway with little coordination and no sense of strategic division of labor. With entities stretched from Bonn to Montreal, Nairobi to Geneva, focus is dissipated, efforts splintered, responsibilities scattered, funding squandered, and accountability lost. Priorities are not set in a coordinated or systematic fashion nor are budgets rationalized.

The concerns addressed by these many bodies are wide-ranging and diverse. But the response to diversity need not be disorganization. A carefully constructed institutional design that offers a streamlined, coherent, and comprehensive approach to worldwide environmental challenges has much to recommend it. Relocation of the core elements of the existing set of international environmental programs to a single city (near a transportation hub, with minimal corruption, proximity to other UN bodies, political stability, modern and cost-effective telecommunications, a locale that attracts first-rate staff, and a host country that is committed to the success of the enterprise) would greatly enhance efficiency and permit a range of synergies. We know, for instance, that the chlorofluorocarbons (CFCs) that deplete the ozone layer are also greenhouse gases. Thus, these problems should be attacked together. “One-stop shopping” would be a particular boon to developing countries, many of which are thinly staffed and over-stretched as they try to keep up with the vast sweep of environmental entities, meetings, negotiations, and activities spanning the planet.

An effective GEO need not be a big, new bureaucracy. To the contrary, a streamlined agency that consolidates many of the entities identified above, supported by a decentralized (largely virtual) structure of outside experts (national government officials, academics, business, and NGO leaders) would make more sense. With a “global policy network” as its core and a modern organizational design that takes advantage of the technologies of the Information Age, such a GEO could move quickly to breaking issues, bring analytical rigor to hard problems, and be entrepreneurial in the development of worldwide response strategies – all with much lower overhead than traditional international organizations.

In revitalizing global environmental governance, focus must be the watchword. UNEP has gotten bogged down carrying out projects in dozens of countries. While independently worthy, these local-issue-oriented activities should be undertaken by national governments supported by UNDP or the World Bank. Priority, instead, should be given to inherently international-scale problems, including management of the oceans, atmosphere, and other global commons resources with the GEO serving as a convening authority, engaging not only governments but also civil society at large, including business and NGO leaders. A vibrant and focused new organization could provide the data foundation needed for good environmental decision making; a capacity to gauge risks, costs, benefits, and policy options comparatively; a mechanism for leveraging private sector and governmental resources deployed at the international
level; and a means for improving the results from global-scale environmental spending and programs.

The logic of Prime Minister Jospin’s appeal for a GEO is straightforward. In a globalizing world, we need to find thoughtful ways to manage our ecological interdependence. Without a concerted effort to address transboundary pollution spillovers systematically and to utilize the shared resources of the global commons responsibly, we cannot succeed. Delivering an optimal level of public goods, including environmental protection, is always difficult given the logic of collective action. Garnering support for global public goods is even harder given the international coordination that is required and the ease with which those who wish to free ride can escape bearing a share of the burden.

The existing international environmental system is buckling under the weight of its current responsibilities while the demands for global-scale action are rising. It is time to reengineer the regime, aiming for a new, sleeker, and more efficient design that will better serve environmental, governmental, public, and business needs. The “Rio + 10” Sustainable Development Summit to be held in Johannesburg in 2002 would be a good target date for completing the planning phase for this new structure.
GLOBAL AGING: CHALLENGES AND POLICY RESPONSE

By Peter G. Peterson

INTRODUCTION

A demographic iceberg looms ahead in the future of the largest and most affluent economies of the world—the challenge of global aging. What’s visible above the waterline is the unprecedented growth in the ratio of elderly to working-age people. What lurks beneath the surface are the wrenching fiscal and economic costs that threaten to bankrupt even the greatest of powers. To date, the developed countries have accumulated roughly $70 trillion in unfunded liabilities for pension and health benefits—an unsustainable lien on the future six times greater than their official public debt.

Leaders are beginning to focus on this challenge, and some governments have responded by making limited policy changes. But so far these changes fall far short of what’s needed. The central issue is not whether the developed countries will change course, but how and when. If reform happens sooner, the changes can be made with deliberation and foresight, and in a way that strengthens our economies, gives families time to prepare, and secures the safety net for those who really need it. If it happens later, the changes may be sudden and painful—and arrive in the midst of financial crisis and political upheaval.

Timely reform won’t be easy. Voters have become habituated to pay-as-you-go systems that bank every generation’s future retirement on the next generation’s resources, rather like a giant Ponzi scheme. People find it hard to believe that a system that worked wonderfully for their parents (who signed up early) won’t do nearly as well for their children (who are signing up late). In Europe, where the “welfare state” is more expansive, the public regards generous unfunded pensions as the very foundation of social democracy. In the United States, the problem is not so much a habit of welfare-state dependence as the peculiar American notion that every citizen has personally earned and therefore is “entitled” to whatever benefits government happens to have promised.

Unlike many predictions about the future, global aging is not a mere hypothesis. It is as close as social science comes to a certain forecast. Absent a Hollywood catastrophe—a colliding comet or an alien invasion—it will surely happen. Remember, the elderly of the next half century have been born and can be counted, and the cost of their pension and health benefits can be calculated and projected. What remains to be seen is whether humankind can gracefully accommodate the new realities global aging
brings in its wake. Global aging will not adjust to our visions. We will have to adjust to it.

PART I: IS DEMOGRAPHY DESTINY?

The world stands on the threshold of a vast transformation—even a revolution—with few parallels in humanity’s past. It’s called global aging, and is the result of rising life expectancy, falling fertility rates, and (in some countries) the imminent arrival in elderhood of large postwar Baby Boom generations. Global aging is due to hit the developed countries earliest and hardest, though the developing world is aging in its turn. Let’s take an unflinching look at the shape of things to come:

• Global aging will transform the world into societies that are much older than any we have ever known or imagined. Until the industrial revolution, your odds of a random encounter with an elderly person (aged 65 or over) were about one in every forty. Today, in the developed world, the odds are about one in every ten. A few decades from now, they will be one in every four—and in a few countries, they may be one in every three.

• As the number of elderly explodes, global aging will place an unprecedented economic burden on working-age people. Today, the ratio of working taxpayers to retired pensioners in the developed world is 3 to 1. By 2030, absent reform, this ratio will fall to 1.5 to 1—and in some European countries, such as Germany and Italy, it will drop to 1 to 1 or even lower. The typical working couple will thus be required to fund the full cash pension and health-care needs of at least one anonymous retiree.

• Global aging is what happens when people start living much longer. Global life expectancy has grown more over the last 50 years than over the previous 5,000. Over the next 30 years, it is projected to rise by another seven or eight years—which alone will increase the number of elderly by roughly one-third. If the US Social Security retirement age of 65 had been indexed to longevity since 1935, today’s workers would be waiting until age 73 to receive full benefits and tomorrow’s workers, even longer. In reality, workers throughout the developed world have been retiring earlier, not later. Over the past 25 years, the employed share of all men aged 60 to 64 has dropped from 70 to 32 percent in Germany, and from 67 to 22 percent in France.

• Even among the elderly, the number of “old-old” is growing much faster than the number of “young-old”—a phenomenon demographers call the aging of the aged. Worldwide, the number of elderly aged 65 to 84 is projected to grow threefold by the year 2050, the number aged 85 and over is projected to grow sixfold, and the number aged 100 and over is projected to grow sixteenfold. The old-old is the
age group most likely to be frail, dependent, and in need of expensive medical care. In the United States, the ratio of per capita health spending on elders aged 85 and over to spending on elders aged 65 to 74 is three to one; for nursing homes alone, the ratio is over 20 to one.

- Global aging is also what happens when people start having fewer babies. Thirty years ago, the typical woman worldwide had 5.0 children over her lifetime. Today, the global “total fertility rate” has fallen to 2.7. In the developed countries, it has fallen all the way to 1.6—which is far beneath the 2.1 “replacement rate” needed merely to maintain a fixed population from one generation to the next. There are now fewer babies born each year in Germany than in Nepal, with a population one-quarter as large.

- Global aging is pushing the developed world—and perhaps even the entire world—toward eventual population decline. Unless their fertility rates rise, western Europe and Japan are on track to lose about two-thirds of their current population by the end of the twenty-first century. In 1950, six of the world’s twelve most populous nations were in the developed world: the United States, Japan, Germany, France, Italy, and the United Kingdom. By 2050, only the United States is expected to remain on that list. Replacing the others will be Nigeria, Pakistan, Ethiopia, Congo, Mexico, and the Philippines.

- Global aging will revolutionize the family by drastically narrowing and lengthening its shape. While the family tree narrows—and the number of a typical person’s aunts, uncles, cousins, and siblings enters a steep decline—the surge in life expectancy will make the tree taller. Within a decade or two, there will be more grandparents than grandchildren in many developed countries.

- The official projections may err on the side of optimism, since they assume that the underlying causes of global aging will weaken over time. Most of the official projections assume that the recent pace of improvement in global life expectancy will slow—despite recent predictions of dramatic extensions in future life spans due to bio-genetic breakthroughs. They also assume that fertility in the developed countries will return to the replacement rate of 2.1. According to the official UN projection, the median age of the developed world will rise from 37 today to 46 in 2050. This is amazing enough. But in the UN’s “low variant” projection, which assumes no fertility rebound, the median age rises to 51 in 2050. And this is the average. In Germany, it is projected to reach 53; in Japan, 54; in Italy, 57.

PART II: FISCAL REALITIES

Graying means paying—paying for pensions, for hospitals, for doctors, for nursing homes. In most
developed countries, global aging promises to heap enormous costs on future taxpayers. The numbers speak for themselves:

**UNSUSTAINABLE LONG-TERM PROJECTIONS**

Between 1995 and 2030, according to official OECD projections, the average bill for public pensions in the developed world will grow by over 4 percent of GDP. In countries that have the most generous pension systems or are aging the most rapidly—the nations of continental Europe and Japan—the extra cost will amount to over 6 percent of GDP. Only Britain and Australia face no significant growth in pension costs—in part due to their modest pension benefit formulas and to new personally owned savings programs that allow future public benefits to shrink as a share of average wages.

But pensions aren't the only public costs that rise as populations age. Health benefits could be an even bigger burden. Not only are real health-care costs rising rapidly, but the elderly consume three to five times more health care per capita than younger people. If health-care spending per capita grows just 1 percent faster per year than the average wage—a plausible assumption, given historical trends—public health benefits would rise by 6 percent of the typical developed country’s GDP between 1995 and 2030. And this doesn’t include new government initiatives (already under consideration in several countries) to cover rising out-of-pocket spending on long-term care by elders and their families.

All told, the cost of public retirement benefits—pensions and health care—is on track to rise by between 9 and 16 percent of GDP in most of the developed countries. This vast increase is three to five times what the United States currently spends on national defense. It also represents an extra 25 to 40 percent taken out of every worker’s taxable wages—in countries where total payroll tax rates often exceed 40 percent already.

**THE DEVELOPED WORLD: VARIATIONS ON A THEME CALLED FISCAL DURESS**

That the developed world is moving more or less in the same direction does not mean that all developed countries are moving in the same way or at the same speed. Consider the following three countries: Japan, Italy, and the United States:

- **Japan: First to Encounter the Aging Society Problem.** Twenty years ago, Japan was the youngest society in the developed world. But because Japan never experienced a postwar baby boom, it is aging very rapidly and will experience a 25 percent drop in the number of workers under 30 between 2000 and 2010. By 2005, it will be the oldest society in the developed world. Thereafter, its tsunami-sized age wave will constitute an enormous economic burden—even if Japan succeeds over the next few years in reducing its large fiscal deficits and reviving its rate of economic growth. Japan does possess some compen-
sating social and institutional advantages. These include a high savings rate, a high rate of elder employment, and, perhaps most important, a strong ethic of filial piety. At last count, some 55 percent of Japanese elders lived with their grown children—compared with just 15 percent of US elders.

- **Italy: The World's Worst-Case Pension Scenario.** Imagine a pension system so generous that it awards new retirees indexed benefits equal to 80 percent of pretax wages—which means that many people are better off retired (when they no longer have to pay payroll taxes) than at work. Next imagine a retirement age so low that people can retire with full benefits at age 55. Welcome to retiring Italian style. Costing over 15 percent of GDP—or 33 percent of worker payroll—Italy’s public pensions are the world’s most expensive. With a fertility rate of just 1.2—the world’s lowest—its demographics are also the most ruinous. Yet from Paris to Vienna, most continental European countries face similar problems that seem to chase each other in a vicious circle: declining birthrates, generous pensions, early retirement, towering payroll tax rates, and sluggish job growth.

- **America: The Biggest Spender on Doctors.** The United States is the youngest of the major developed nations. By continental European standards, its Social Security system is also relatively inexpensive. Yet for all this good news, the United States labors under two big disadvantages—a low national savings rate and an unparalleled health-care cost explosion. The United States spends about 14 percent of GDP on health care, compared to about 8 percent of GDP in the rest of the developed world. Timing is also a double-edged sword. The United States won’t begin to age rapidly until the leading edge of its Baby Boom turns 65 a decade from now. While this delay gives it more time to meet the aging challenge, it could also breed complacency. If the United States waits too long to respond, it could find itself worse off. Today, nations slow to take their fiscal medicine are able to borrow abroad and run large deficits without irreparable harm. The next century’s global environment will be less forgiving.

**THE DEVELOPING WORLD: A STUDY IN DIVERSITY**

It is in the developed world where we find the oldest populations, the most generous retirement promises—and the least sustainable budget projections. Elsewhere, the situation is more diverse. At one extreme are Africa, the Middle East, and Central Asia, where global aging poses few direct challenges over the foreseeable future. At the other extreme are the former Soviet and Warsaw Pact nations of Eastern Europe. They aren’t waiting to meet the aging challenge. They’ve already met it head on, and failed. During the early postwar decades, these nations established universal public retirement systems. Declining fertility and economic crisis have turned
these systems into fiscal wrecks.

That leaves South and East Asia and Latin America, about half of the world’s total population. Unlike the “African” case, most of these countries have experienced swiftly growing lifespans and swiftly declining fertility rates in recent decades. The elder shares of their populations may never catch up with those of the developed countries—but because some are so large, they face age waves of staggering absolute size. By 2050, the number of Chinese aged 65 and over is projected to reach 330 million—which, as recently as 1990, was the elderly population of the entire world. Unlike the “Eastern Europe” case, however, few Asian and Latin American countries have committed themselves to universal pay-as-you-go benefit systems. As a result, most still have plenty of time to experiment, reform, plan, and prepare.

PART III: NO EASY CHOICES

The official projections are stark. Most developed countries will have to undertake fundamental reform of retirement benefits or else experience fiscal meltdown. Given this choice, it’s not surprising that many leaders prefer denial. While just about everybody acknowledges that global aging itself is inevitable, there are plenty who insist the hard choices can be avoided.

- **The Economic Growth Fantasy:** Most official projections assume that economic growth will slow in the decades to come. A typical claim is that this “pessimism” is unjustified—and that faster growth will make current benefit promises more affordable. What the optimists forget is that benefits are nearly always linked to wages—so that, when and if productivity and wages rise faster, so (after a lag) will benefits. The optimists also forget that GDP growth equals the number of workers times product per worker. With the labor force due to plateau (in the United States) or contract sharply (in Japan and Europe), GDP growth will necessarily slow down or even turn negative—unless productivity growth greatly accelerates. This is not pessimism, but arithmetic.

- **The Privatization Fantasy:** Just allow workers to invest their contributions in the stock market, and presto, say enthusiasts, the fiscal costs of aging will painlessly disappear. Wrong again. Unless privatization raises national savings, society will be no better off. Pain must precede gain. To transition from today’s pay-as-you-go systems to genuinely funded systems, workers in the developed countries must pay for two retirements: their own, which now must be prefunded, and that of their parents’ generation.

- **The Health Cost Fantasy:** Against all experience, many experts (particularly in the United States) claim that with a few simple changes in national health-care systems we can greatly ease the cost of global aging. Simply get rid of all the waste, fraud, and abuse, they say,
and cost control will be within reach. Most experts disagree. Health-care spending is not growing so fast due to the proliferation of useless medical services, but to the continuous introduction of new technologies and treatments that provide some benefit but are expensive. The only way to control health-care costs is to ration services, whether through government regulation or markets. This is not a way to avoid the tough choices. It is the tough choice.

- **The Trust-Fund Fantasy:** Some say that projections of rising benefit costs exaggerate the burden of global aging because they ignore the substantial financial assets accumulated by government pension systems. But these assets deserve to be ignored. Although every major public pension system in the world possesses some sort of “trust fund,” such accounts never pretend to fund more than a small fraction of future benefit liabilities. And even these “assets” typically consist of IOUs from one government agency to another that can only be redeemed if new cash is raised from the public. US Social Security may be projected to be “solvent” until 2037. But annual benefits will start exceeding annual tax revenues in 2015, after which the trust funds must start cashing in their IOUs. Between 2015 and 2037, Social Security—while technically solvent—will add a cumulative $11 trillion to the national debt.

**Letting Deficits Grow: The Road To Global Financial Meltdown**

It’s time to stop fantasizing about easy fixes. And it’s time to recognize that doing nothing will lead to fiscal catastrophe. Simply left on autopilot, the public pension systems of the G-7 countries will, by 2030, be adding 7.4 percent of GDP to the collective budget deficit of the G-7 governments; by 2040, they will be adding 12.1 percent. By then, government borrowing would be consuming more than all the annual savings of the developed world.

Not only is current fiscal policy unsustainable in the long run; it will wreak havoc on nations going down this path. As widening budget deficits erode national savings, either domestic investment will fall or capital inflows will grow. Both are likely to happen together. The price to be paid for falling investment will be declining productivity and living-standard growth. The price to be paid for growing capital inflows will be rising debt-service payments to foreigners—and, perhaps, an erosion of national autonomy.

**Cutting Other Spending And Hiking Taxes Won’t Solve The Problem**

What about the next path of least resistance: trimming other public spending? This might help, but to make a real difference governments would have to slash, not trim—and it’s not at all obvious where to place the knife. So great is the projected growth in total public benefit spending that many governments
could eliminate all nonbenefit spending, from defense and infrastructure to police and schools, and still run deficits by the 2020s.

Tax increases too may help, but taxes are already high. Most developed countries are now clearly at or beyond their threshold of efficient taxation. The United States and Japan are possible exceptions. But in the European Community, total tax revenues average 46 percent of GDP. These nations cannot conceivably raise the extra 9 to 16 percent of GDP—or, equivalently, 25 to 40 percent of payroll—needed to cover the cost of the age wave. Already, many leaders are warning that higher tax rates will slow the economy more than raise new revenue. This is particularly true for payroll taxes in economies where high structural unemployment can be attributed in part to the high cost of labor.

PART IV: NEW STRATEGIES

Developed countries must confront the truth: that their pay-as-you-go retirement systems cannot survive the coming age wave, and that their generosity must be greatly reduced.

Large benefit cuts, however, could be very painful—especially if they are sudden and unplanned. Most workers, after all, are highly dependent on public retirement benefits. Overall, in the European Union, only 7 percent of workers are covered by any funded business pension, and only 1 percent by a 401(k)-type defined-contribution savings plan. Even in the United States, with its large private pension system, barely half of all workers are covered by an employer plan. The median US household has accumulated negligible financial wealth. Even among US households in their late-fifties, when most workers are nearing retirement, median financial net worth still falls shy of $10,000.

Successful reform must therefore go beyond mere fiscal sacrifice. It must prepare society to meet the needs of tomorrow’s burgeoning number of elders without overburdening the economy or overtaxing the young. While restraining pay-as-you-go promises, it must encourage (or even require) people to prepare alternative means of support. The developed world, in short, must adopt an entirely new paradigm of aging.

A look at history and cultures around the world suggests that any workable paradigm will likely be assembled from some combination of six basic strategies:

- **Reduce elder dependency by encouraging later retirement, longer work lives, and lower barriers to elder employment.** Governments everywhere, especially in continental Europe, could generate enormous savings without lowering elder living standards by raising the eligibility age for public pensions. Gradually raising the minimum retirement age to 70 would, according to the OECD, cut total public pension outlays by
20 to 40 percent beneath current projections in virtually every developed country. Later retirement would of course require a sizable shift in business and labor attitudes and a major investment in the training and retraining of older workers.

- **Increase the size of today’s economy (and tax base) by encouraging more work from the nonelderly**—either by getting working-age citizens to work more or by increasing the **inflow of working-age immigrants**. Nations with low rates of immigration (e.g., Japan) or with high labor costs and high unemployment (e.g., Germany) would be well-advised to consider this “American” strategy.

- **Increase the size of tomorrow’s economy (and tax base) by raising more numerous and productive children**, so that the cost burden is spread over a larger and more affluent rising **generation**. The Scandinavian and French tradition of generous public funding for pronatal incentives and investment in children is spreading to other countries (most recently, Japan)—in part, in response to worries about population decline.

- **Reduce the fiscal cost of elder dependency by stressing filial obligation**—that is, by increasing the willingness of tomorrow’s grown children to support their own elder parents through informal and familial channels. Societies in which the extended family is weakest, elder poverty is highest, and long-term care costs are rising the fastest (e.g., the United States) have much to learn from “Confucian” societies such as Japan.

- **Reduce the fiscal cost of elder dependency by targeting benefits on the basis of financial need**. Today’s public retirement systems generally disburse benefits to all retirees regardless of income or wealth. In the United States, some $200 billion in yearly benefits go to the most affluent quarter of all households—even as one-tenth of all elders remain below the official US poverty line. Though Australia is now the only developed country where all public pension benefits are means-tested, many other countries may eventually turn to this “floor of protection” strategy.

- **Reduce the fiscal and economic cost of elder dependency by requiring people to save and invest more of their income during their work lives**. Britain and Australia (along with Chile and Singapore) are showing the developed world that there are many different ways to move toward funded retirement savings. This strategy does most to overcome one of the biggest economic challenges of an aging society, which is how to sustain adequate rates of national savings and investment. It guarantees the most security and the highest return to contributing workers, while freeing up government resources for a more generous floor of protection. Above all, it is the only strategy that does not impose direct (tax) or indirect (economic
and familial) burdens on future generations.

While all of these strategies promise huge fiscal and economic payoffs, all of them will be difficult to implement. Some, like later retirement and adjusting benefits according to need, will challenge settled popular expectations—in this case, that government should subsidize early retirement for everyone. Some, like pronatal policies and stepped-up immigration, will trigger cultural and social controversy. Some, like investing more in children, may require more patience and wisdom than most governments now possess. And practically all will be more acceptable in some countries than in others. Stressing filial piety, for example, will be easier in Asia than in North America, while mandatory savings accounts will appeal more to North Americans than to continental Europeans.

**Part V: Asking the Right Questions**

To understand the full consequences of global aging, we must look beyond the projectable demographic and fiscal numbers and examine a broad array of less quantifiable economic, political, social, and cultural issues. Will aging be a scourge? Or can the developed world learn to adapt gracefully? It’s time to reflect on some searching questions about what global aging will mean for:

- **Economy:** What will happen to the structure and dynamism of the developed world’s economies as they adjust to the new abundance of elders, the new dearth of young workers, declining household savings rates, and stagnating (or even shrinking) real output? Economists define “recession” as two or more quarters of negative GDP growth. What is the word for an economy that finds itself in an *endless* “recession,” quarter after quarter?

- **Business:** Which sectors of the economy will prosper and which will decline? Likely losers in an aging world: real estate and construction. Likely winners: health care, financial services, and all manner of retirement “lifestyle” businesses.

- **Workforce:** As the developed countries age, concerns about high unemployment will give way to concerns about labor shortages. But leaders—and especially European leaders—have yet to adopt a 21st century frame of mind. With pensions so costly and youth so scarce, a successful economy will have to encourage workers to retire later and work longer. What policies can make “active aging” more than just a popular slogan? Beyond policies, how can popular attitudes be changed? Overcoming ageism may be not only the new great civil rights agenda for the 21st century—but also the key to unlocking new productive energy in societies with zero-growth (or even shrinking) populations. A number of myths must be slain. In fact, most elderly do want to work; most elderly are not disabled; and most elderly do possess marketable talents or skills that younger
people don’t have. Moreover, if future public retirement benefits are cut—as they certainly will be—more elders will need to work. Even in the United States, with its strong traditions of thrift and self-reliance, half of the adults in their late-fifties have a net financial worth of less than $10,000.

- **Politics:** When nearly half of the adult population of developed countries—and perhaps two-thirds of the voters—are at or beyond retirement age, who will speak for the future? Is global aging destined to enthrone the senior lobby as an invincible political titan? Or does “a war between the generations” loom in the future of the developed world?

- **Health Care:** How will global aging reshuffle the ethics of life and death—as medical progress is forced to acknowledge limited resources? How will society define the “care” or “cure” that it pays for out of public budgets? Should age or cost or probability of survival matter? What about “bad” genes or risky lifestyles? In short, who lives? Who dies? Who decides? Sooner or later, every developed country must answer these questions—for there is simply no way to pay for all the health care an aging society may desire.

- **Culture:** How will global aging transform the culture—as youth becomes less numerous and influential? The crime rate will decline, but so too may the tolerance for risk. Are the developed countries fated to move toward a world in which innovation is shunned? Or can aging societies find some way to replace the energy and daring that biology naturally bestows on the young, while retaining the wisdom and experience of the old?

- **Globalization:** Will an aging developed world continue to espouse the liberalization of trade—or will it retreat behind the tariff walls of yesteryear? How will the various developed nations choose between their economy’s hunger for more workers and taxpayers and the desire of citizens to preserve their nation’s social and cultural identity? Will they open or shut the door to more immigration from a still younger developing world? Will widening pension deficits trigger a meltdown in global capital markets? Consider the problems posed by Japan’s disappearance as a leading capital exporter. Within the next ten years, its annual projected public pension deficit is projected to exceed its recent annual capital exports as a share of GDP.

- **Regional Integration:** Will the new European Economic and Monetary Union (or EMU) run aground on demographics—as each member nation responds to its own aging challenge with widely divergent benefit reforms and fiscal policies? Remarkably, unfunded pension liabilities are not counted under the official EMU debt and deficit criteria, which is like measuring icebergs without looking beneath the waterline.
What if Italy—which has come to epitomize the fiscal woes of an aging society—someday sees no alternative but to run deficits far exceeding the official 3 percent of GDP ceiling? What will the response be from other EMU nations that don't face such a perilous fiscal future—for example, the United Kingdom if it someday becomes a member. The cash shortfall in Britain's public pension system is projected to be just 1 percent of GDP over the next four decades—compared with 9 percent of GDP for Italy, 7 percent for Germany, and 5 percent for France. This scenario could have any number of outcomes, ranging all the way from increased volatility of the euro to dissolution of the Union itself.

**Geopolitics:** How will global aging affect the “new world order” of the new century? Will the global divide between rich and poor nations be redefined as a divide between old and young nations? Will today’s great powers find the fiscal resources to maintain their security commitments? Will they someday come to depend on the capital surpluses of developing countries to keep themselves financially afloat? And if so, how will these new suppliers of capital use their newly acquired leverage? If the great powers try to import large numbers of a developing country’s best-trained workers, how will this “brain drain” affect the strategic “global bargain” between developed and developing nations? Historically, the richest industrial powers have been demographically growing, capital exporting, globally philanthropic giants that projected their power and mores around the world. In the future, the richest industrial powers may be none of the above. Is the rapidly aging developed world fated to decline? Must it cede its leadership role to younger and faster-growing societies?

**PART VI: TOWARD A GLOBAL SOLUTION TO A GLOBAL PROBLEM**

Global aging will test whether the world’s great powers can respond to a slow-motion crisis that, for all of its vast scale, will take decades to engulf them. Some say that democracies can only focus on this year’s emergency—a problem known, in American circles, as the “Pearl Harbor” syndrome. Others say that political gridlock on global aging is due to declining confidence in government. Voters know something has to be done, but don’t trust politicians to act in their long-term interests or to distribute the short-term sacrifices fairly. Without that trust, they cling to the retirement status quo, however unsustainable.

One thing is certain: before taking effective action, leaders must rise above ideology and engage in the practical realities. The left will have to stop defending unsustainable retirement benefits as the cornerstone of progressive government, and realize that they are fast pushing all future-oriented spending out of public
budgets. The right will have to move beyond a program of mere fiscal restraint, and offer a coherent blueprint for how society intends to care for tomorrow’s vast number of elder dependents. Both sides will have to resist the power of the organized senior lobby, which favors the status quo over what most elders personally care about—their grandchildren’s future.

Each country’s situation is unique, and to some extent each will face the aging challenge on its own terms. In the long run, the impact of a nation’s policy response—on savings, on tax rates, on fiscal balance, on productivity—will redound largely to the benefit of its own citizens. Nonetheless, all countries have a genuine common interest in the success or failure of individual actors in today’s global economy. Success in one country makes the world safer, while failure in one country can be contagious.

Clearly, all countries would be well served by some means of collective deliberation over the choices that lie ahead. I have called for a Summit on Global Aging, to be attended by the leaders of the developed and developing countries. At this summit, leaders would define the problem, debate the issues, and discuss their different strategies. They would also launch a new Agency on Global Aging, whose function it would be to lend the global aging agenda an institutional presence.

The list of challenges that threaten the world’s stability and prosperity in the 21st century is long and generally familiar. It includes the proliferation of weapons of mass destruction, the perils of extreme climate change, and the ethnic and military explosions waiting to be detonated by today’s unsteady new democracies. Yet there is a less-understood challenge—the graying of the developed world’s population—that may actually do more to reshape our collective future than any of the above.

A “Gray Dawn” is approaching—and the time to prepare is fast running out.
IRAQ SANCTIONS: A REAPPRAISAL

By John Chipman

In the 10 years since the end of the Gulf War, and despite much comment to the contrary, the policy of containing Saddam has been largely effective. The serial aggressor who had invaded and fought with immediate neighbors for all but two of his 12 years as leader has been unable to attack or seriously threaten anyone. His armed forces are severely constrained by shortages of equipment and spare parts. His weapons of mass destruction program has been exposed and reduced. Where 10 years ago Saddam was on the verge of a nuclear capability, that prospect has been indefinitely postponed.

Nevertheless, criticism of containment is mounting, and containment itself is growing leakier. As reaction to February’s air-strikes underlined, the United States and United Kingdom can count on no overt support for the use of force to safeguard the no-fly zones, and much condemnation. Saddam has adroitly exploited the suffering of his own people and the breakdown in the peace process to turn regional and wider popular opinion against sanctions. Inspections are on hold. And both sanctions evasion and sanctions breaches are increasing. Last year, numerous companies attended the Baghdad Trade Fair, while others (including three permanent members of the security council) have permitted flights to Baghdad. Oil smuggling, principally via Jordan, Iran, and Turkey, is estimated at nearly $1 billion a year. And Syria has now agreed to take large quantities of Iraqi oil through a reopened cross-border pipeline.

Those who see in this the collapse of containment are overstating the case. Containment remains the only viable option if Saddam can’t be removed and can’t be rehabilitated. Removal looks unlikely–Saddam is, if anything, stronger internally than he was. Rehabilitation is unacceptable if it means a Saddam free to develop his WMD and to rebuild his armed forces.

However, containment will be increasingly less effective unless it commands approval as well as authority. To achieve that, it is increasingly clear that the current instruments of containment need to be recalibrated.

In considering changes to the existing sanctions regime, three objectives need to be kept in focus:

- depriving Saddam Hussein of the military
capabilities he needs to launch aggression against his neighbors;

- impeding, if not completely eliminating, his ability to produce medium- and long-range ballistic missiles and weapons of mass destruction; and

- preserving, as much as possible, regional support for these objectives.

A continued, robust sanctions regime that keeps military components, offensive technology, and WMD precursors out of Iraq and money out of the hands of regime members is essential to the first two objectives. A sanctions regime that enables the majority of Iraqi citizens to get on with their lives, reduces their isolation, and fosters a reconstitution of the Iraqi middle class is the key to the third objective.

With these objectives in mind, the G8 should endorse the exploration of the following options by the key protagonists in the UNSC:

**Eliminate sanctions on commercial goods.** Nearly 85 percent of contracts submitted to the UN Iraq sanctions committee for civilian, commercial goods are already approved automatically. Sanctions on civilian goods, where they are applied, spur the local black market, which increases the price of commodities to the further detriment of an already impoverished middle class. They also contribute to perceptions that the Iraqi people are the real targets of sanctions. Perhaps just as important, increased civilian cross-border commercial activity would provide a badly needed boost for the Jordanian and Turkish economies. It is true that some money will pay for cigars and champagne for Saddam and his cronies. But this is a trivial reason to maintain a sanctions policy that undermines the regional public support required to sustain long-term containment of Iraq’s revanchist ambitions.

**Refine the use of force.** As long as Saddam is in power, the United States and United Kingdom—at a minimum—must be prepared to use force to prevent reconstitution of his WMD program, deter him from suppressing Iraq’s minorities, and preempt aggression against his neighbors. Yet, as the Russian, French, and Egyptian reactions to the US/UK air-strikes against air defense command and control assets north of the 33rd parallel showed, tolerance for the use of force is rapidly shrinking. It is essential that the United States and United Kingdom preserve the international political leeway for using force when it is absolutely essential, even if this means forgoing attacks like the ones just carried out and having to use force much more intensively when it finally becomes unavoidable.

In practical terms, this means suspending Operation Southern Watch, while maintaining the aircraft and crews in place—as France has done—against the day when they must resume operations for the reasons stated above. Although frequent combat air patrols are the best way to ensure that Iraqi aggression is
countered before it develops fully, the proximity of standby, high readiness Southern Watch aircraft to their patrol areas over southern Iraq and proper intelligence support should ensure a rapid reaction to Iraqi air or ground incursions. The suspension of flight operations, however, should be predicated on French, and perhaps Russian, willingness to state publicly that there are scenarios in which concerned states would have no choice but to use force. These scenarios would include Iraqi troop concentrations south of the 33rd parallel that indicate offensive intentions toward Kuwait or Saudi Arabia, or massacres of Shi’a living in southern Iraq. Operation Northern Watch, or Provide Comfort, could not be suspended because the proximity of Iraqi heavy armor and the less favorable conditions for coalition flight operations already deprive the coalition of the time it needs to effectively preempt a determined Iraqi incursion.

Unleash investment in Iraq’s oil infrastructure. Iraq’s infrastructure is deteriorating, which in turn endangers the structural integrity and long-term viability of the oil fields themselves. Although the UN has allowed some work to go forward, and UNSCR 1284 authorizes the UNSYG to permit additional investment, much more needs to be done. Meanwhile, significant commercial interests are driving some governments to push for the elimination of the entire sanctions regime. As long as UN control over Iraqi oil revenues is maintained, there is no reason why foreign companies should be prevented from repairing Iraq’s infrastructure, especially if the opportunity to do so reduces the pressure on their governments to undermine the sanctions regime. Thus, a new UNSCR should eliminate all restrictions on investment in Iraq’s energy sector.

Eliminate civil flight restrictions. Flights into and out of Iraq have become the lowest risk way for third countries to show Iraq that they care. They are also too difficult, indeed impossible, to prevent. The result is that sanctions violations of a kind that is meaningless in practical terms have been transformed into tangible evidence that the entire sanctions regime is collapsing. Since some members of the coalition have long argued, with some justification, that isolation of the Iraqi people is not in the long-term interest of the West, it would make sense to drop this particular sanction. This reasoning should not, however, apply to civilian flights that transit the no-fly zones within Iraq, which the regime occasionally violates to claim a propaganda coup. Formally ending this prohibition under the rubric of giving Iraq back to its people might make political sense. From a military perspective, however, where such aircraft would have to be distinguished in combat conditions should coalition aircraft have to enter Iraqi airspace, it makes less sense. Indeed, by introducing the risk of a coalition shoot-down of a civilian aircraft, it creates the potential for a truly large propaganda victory for Saddam as well as a human tragedy.

Tighten controls on a narrower range of dual use items. Suppliers now notify the sanctions committee of their intent to export items listed in the annex of
UNSCR 1051 (1996); Iraq, likewise, informs the committee of its intent to import items on the list. These contract requests are reviewed on a case-by-case basis. Since the range of items is so wide—virtually everything is potentially dual use—some contract applications are turned down despite the fact that the items were destined for civilian use. Power generation, telecommunications, sewage treatment, and water purification have deteriorated as a result. Yet “presumption to deny,” the standard applied by some countries on the sanctions committee, is still warranted, as Iraqis showed by using imported fiber-optics to enhance their ability to destroy coalition aircraft. However, for purposes of public diplomacy and avoiding embarrassing instances of blocked contracts for items that have plausible civilian use, the sanctions committee could declare a shift to “presumption to permit” and allow export of a greater range of “dual use” commodities. Intelligence communities, UNMOVIC, and IAEA should be pressed to create a list of truly dangerous dual use items. At the same time, the Security Council would insist that supplier countries tighten enforcement of their own export control laws as they apply to items destined for Iraq. The United States and United Kingdom, in particular, are capable of monitoring illegal transfers to Iraq, much as they did with respect to Iran in the Iran-Iraq war and Libya, for nearly a decade. During these periods, the United States and United Kingdom were assiduous in using this information to ensure that governments knew what offending national firms were doing, and to press them to take appropriate action.

**Block the assets of regime members.** While many Iraqis go without basics, the regime elite has fortunes stashed away in foreign banks. Although numerous regulatory barriers to blocking and seizing these assets exist, the effort to get at them would force account holders to move their assets, while demonstrating—in combination with elimination of civilian trade sanctions—that the UN was sanctioning the regime, not the Iraqi people.

**Make a serious effort to reduce oil smuggling.** The regime lines its pockets with about $2 million per day in revenue from oil piped to and swapped with Syria, shipped through the strait in Iranian waters, or trucked out through other transit points. Not all of this can be stopped. If, however, the United States chooses to relax unilateral sanctions on Iran after the sunset of ILSA in August of this year, it could—with strong UK and French support—insist upon an end to Iranian collaboration with Iraqi smuggling as a precondition to an end to economic sanctions. At the same time, coordinated diplomatic pressure should be brought to bear on Syria to close the pipeline. This will serve the coalition's broader purpose of putting as much money as possible into the hands of Iraq's people, while taking as much as possible away from the regime.

**Put controls on the ground to keep contraband out of Iraq.** The UN will have to make a stronger effort to ensure that military or especially dangerous dual-use items do not reach the regime. This is expensive and
difficult to arrange, but it is well within the realm of possibility. All flights destined for Iraqi ports of entry should be inspected. Truck traffic at the existing four land entry points should be checked, not just vehicles transporting items purchased under the oil-for-food program. The more thoroughly these checks are done, the less important is Iraqi cooperation at ports of entry in-country. Verifying end-use would obviously be desirable, but the more the UN relied upon Iraqi cooperation, the more leverage Iraq will enjoy. These quarantine measures could easily be paid for out of Iraqi oil revenues. To the extent that on-the-ground controls were coordinated with intelligence information provided by UN member countries, the more efficient, or "smarter" these inspections will be.

**Sharply limit contact with senior Iraqi regime members.** In contrast to removal of restrictions on the ability of most Iraqis to travel, restrictions on the ability of regime members to move around the world should be cut down. Governments should not issue visas for an agreed upon list of regime figures, except for certain necessary exceptions, for example, travel of senior Iraqi officials to New York or Geneva for UN-related business. Governments should make it known that they would not stand in the way of local Iraqi opposition expatriates and local law enforcement seeking to prosecute regime officials for criminal acts within Iraq.

**Insist on tough UNMOVIC inspection guidelines.** The P-3 and UNSYG should press Hans Blix not to accept Iraqi restrictions on inspections to be carried out under UNSCR 1284. Ersatz inspections will lead to an undeserved bill of health for Saddam Hussein and inundate him with the cash to turn his revanchist fantasies into reality. No inspections are better than phoney ones.

**ROLLING OUT THE POLICY**

As a grand bargain between governments working to contain Iraq and others with more urgent concerns about the effect of economic sanctions and loss of commercial opportunities, the impact and perceived legitimacy of this approach will depend on how it is launched. It must be announced jointly and in public at the ministerial level and backed by the UNSYG. The United Kingdom, the United States, and France would be essential participants; Russian cooperation would be highly desirable. A thorough, but careful, diplomatic campaign should aim to elicit timely public statements of support in Cairo and GCC capitals.

In addition to showcasing the end to economic sanctions, the joint statement would have to include the following elements:

- If UNMOVIC goes into Iraq, it will go in to conduct real inspections. No inspectors are better than hamstrung inspectors.
- Suspension of Southern Watch is an indication of coalition restraint, not a sign of weakness.
Reconstitution of WMD, suppression of minorities, and aggression against his neighbors will warrant the use of force.

- The UN Security Council will view blatant violations of the new, streamlined sanctions regime with utmost seriousness; the P-3, in particular, will press violators hard to comply with sanctions.

If a new policy toward Iraq has not been officially formed before Genoa, the G8 could usefully draw on this approach to ensure a more effective and focused strategy that should command wider international support.
The nonproliferation regime, which can with some justification be credited for having contained a significant spread of nuclear weapons in the postwar period, is challenged by developments that could potentially erode its effectiveness. The number of declared nuclear weapons states increased from five to seven when India and Pakistan tested nuclear weapons. Israel now is an undeclared nuclear weapons state. South Africa has destroyed its nuclear weapons. North Korea seems to have halted its program and Iraq could resume its own program having refused entry to UN inspectors.

Several factors threaten the nonproliferation regime today. The techniques of proliferation have changed. It can now be assumed that states that want to pursue a program of weapons of mass destruction have learnt how to do so with such a degree of secrecy that the outside world does not really know what goes on: by camouflageing activities, going underground with facilities, creating diversions, or by ingeniously disguising the true nature of imported parts and technologies for their programs through disaggregation and complex rerouting via third countries.

South Africa succeeded in concealing completely the existence of its nuclear weapons until it revealed to a surprised world that it had destroyed them. North Korea was able to hide its activities until the moment when it most likely possessed the first quantities of weapons-grade plutonium. The case of Iraq was most striking since it succeeded in conducting a very substantial program while under international inspection by the International Atomic Energy Agency (IAEA) in its capacity as a party to the Nonproliferation Treaty.

These changes suggest that detection has become more difficult, that classical indicators of proliferation are inadequate, and that military shortcuts like Israel's destruction of the Osirak Reactor in Iraq are no longer available options. If an antiproliferation policy is to have any chance of success, controls must become more effective, indeed more intrusive than ever. For these reasons the restoration or imposition
of inspections in the cases of Iraq and North Korea are of fundamental importance to the future of proliferation policy.

The proliferation regime must, moreover, develop in the direction of a more rigorous system of encompassing (full-scope safeguards) and intrusive inspections. In the same vein the export control rules of the Nuclear Suppliers Group (NSG) must be applied without exception. The recent agreement between Russia and India to sell nuclear reactors and uranium fuel to India though it does not apply full-scope safeguards under IAEA rules, constitutes a clear violation of the agreed NSG rules.

Nuclear ambitions either already exist or cannot be excluded in the cases of India, Pakistan, Iraq, Iran, North Korea, or Libya. Other Eastern, north African, or Asian countries may choose the nuclear path in response to regional conflicts or weapons acquisitions elsewhere in the region. In each case the destabilizing consequences could be dramatic and negatively affect the interests of all G8 countries.

Moreover, if countries acquire nuclear weapons, the options of G8 countries to counteract their aggression, ethnic cleansing, or state-sponsored terrorism would be severely reduced. To mount a coalition against an Iraq or Serbia possessing nuclear weapons would be exceedingly difficult. The same would be true of a Russian counterstrategy against an advance from the south of Talibans backed by nuclear weapons.

The cumulative effect of proliferation of nuclear weapons and missile technology makes proliferation in the coming years potentially even more destabilizing and dangerous. Numerous countries have acquired short- and medium-range missiles and are in the process of improving and testing their range, which will soon reach 2,000 km and is likely to be 3,000 km in a few years. Among them are also states like Iraq, Iran, or North Korea that conduct or are suspected to conduct a nuclear weapons program. For these reasons the states of Europe including Russia could be within range of nuclear-tipped missiles years before “states of concern” could target the United States (though forward stationed US troops would be in the same situation as European states).

A rigorous implementation by all G8 countries of the Missile Technology Control Regime (MTCR) to stop the proliferation of missiles is therefore of strategic interest to all members, particularly the European countries. Moreover, all G8 countries should use their available leverage to induce China and North Korea to stop selling missiles or missile technology to other countries.
Despite its shortcomings there is no alternative to the present nonproliferation regime based on the Nonproliferation Treaty. The circumvention of control by Iraq and the nonparticipation of India, Pakistan, and Israel in the NPT have weakened the nonproliferation regime but they have by no means weakened the rationale for a rigorous implementation of the provisions of that Treaty, which is nearly universal. Without it the floodgates to a world of more weapons of mass destruction could be opened. All G8 countries worked very hard to have the NPT unconditionally and indefinitely prolonged a few years ago. They included the United States, which later on refused to ratify the Comprehensive Test Ban Treaty (CTBT) that was part of a deal to make a negotiated extension of the NPT acceptable to most nonnuclear states.

The nonratification of the CTBT by the US Senate therefore potentially threatens the future of nonproliferation policy despite the shortcomings of the Treaty. At a minimum, the newly elected US Administration should, therefore, adhere to a continuation of the testing moratorium. But beyond such a temporary posture a new attempt should be made by the Administration in the US Senate to follow other G8 countries and ratify the Comprehensive Test Ban Treaty so that it can enter into force. Such a policy would correspond to a tradition of an active nonproliferation policy pursued by all postwar US Administrations and to the responsibilities of the world’s strongest nation. Ratification would also increase the leverage vis-à-vis various states, which, like India and Pakistan, are the object of G8 efforts to reciprocally accept nonproliferation constraints.

A further reduction of nuclear weapons would strengthen the nonproliferation regime since it would implement the obligations of Article VI of the NPT, which could be extended only because the nuclear weapons states reconfirmed their commitment to nuclear disarmament on that occasion. President George W. Bush’s announcement to unilaterally reduce the American Strategic Arsenal is therefore helpful in this context. A ratification of START II by the US Senate, following the example of the Russian Duma, would further advance nuclear disarmament, as would a START III Agreement.

A reduction of strategic nuclear weapons to a minimum and the elimination of many categories of tactical nuclear weapons would at last create the preconditions for abandoning the system of massive mutually assured destruction, which was threatening the death of hundreds of millions, if not of human civilization, to guarantee peace.
The time has come to **redefine nuclear deterrence to include missile defense**. As deterrence reaches a desirable minimum level that would avoid the massive destruction contemplated during the Cold War period, a missile defense system could protect countries against accidental launches and limited attacks by “problem states”. The European states have a more immediate interest in defense against “theater missiles”, which for them in reality are “strategic”, given their potential impact on European territory and populations. The United States, however—with the exception of protection of forward stationed US troops—would have such an interest only once “problem states” can attack US territory across intercontinental distances.

Given the stabilizing and crucial role of solidarity inside NATO and of cooperation between the West and Russia on nuclear arms control, it is imperative to preserve the cooperative nature of these relations by avoiding precipitation of unilateral action and, instead, attempt to establish shared and cooperative systems of missile defense and to adapt treaties accordingly, notably the ABM Treaty, through negotiations.

The **disposition of the vast quantities of weapons-grade material in Russia** remains an urgent task and is an essential contribution to disarmament, nonproliferation policy, and nuclear safety. The United States supports this goal in a very substantial manner through the Nunn-Lugar Program, complemented by a small and selective European program. The disposition of weapons-grade plutonium must be an important part of such an effort. A bilateral US-Russian agreement to dispose of 34 t of plutonium is the first step, to be complemented by an international project led by the G8 countries to transform plutonium into mixed oxyd fuel (MOX) for nuclear power stations, supported by various other measures within such a project. It is important to implement the G8 commitment made at the Okinawa Summit to work out an international scheme by the Genoa Summit of 2001.