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*LEBANESE AMERICAN UNIVERSITY*

*School of Arts and Sciences*

*Summit Diplomacy in Global Affairs:  
The Effectiveness of the Group of Seven Summits*

*By*

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*Summit Diplomacy in Global Affairs:*

*The Effectiveness of the Group of Seven Summits*

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## **AN ABSTRACT OF THE THESIS**

### **Summit Diplomacy in Global Affairs: The Effectiveness of the Group of Seven Summits**

This study will try to show the importance of summit diplomacy and the effectiveness of the G7 summits, by analyzing the issues these summits have dealt with. It will try to examine the validity of each of the liberal point of view and the realist point of view as related to summit meetings.

The choice of the Group of Seven summit diplomacy was mainly due to the importance of this Group which gathered the seven highest industrialized states, namely, the United States, Canada, France, Britain, Germany, Italy, and Japan. This Group which had as a primary reason for its establishment the stabilization of the international monetary system, had dealt mainly with economic issues. The issues chosen to be studied in this thesis were: the management of the international monetary system, the liberalization of trade and the problem of unemployment. But with the serious changes that took place in the international scene other important political issues became of concern to this Group and were put on the agenda of its summits. The most important political issues that were examined in this thesis were: international terrorism, arms control, the conflict in the Middle East, the crisis in Bosnia, the help for Russia and the protection of the environment.

The thesis argues that the G7 was effective in many areas that needed cooperation among its members. This emphasis on cooperation and coordination with international organizations lead to a conclusion that the liberal analysis fits better the case of the Group of Seven summit diplomacy.

# Chapter One

## Introduction

Since the international system revolves around the relations of states with each other, the different ways adopted by states to conduct their foreign policies are of great importance. The conduct of foreign policy differs according to the position of the state in the international system and according to the situation it is involved in. Hence, foreign policy can be conducted either in peaceful ways or in violent ways. One of the tools to implement foreign policy peacefully is through diplomacy.

This thesis has as its main topic the issue of summit diplomacy, which is the personal diplomacy by heads of states or governments. In order to investigate how effective summit diplomacy was in implementing foreign policy, a case-study will be dealt with, namely the summit diplomacy of the Group of Seven [the United States, France, Germany, Britain, Italy and Canada]. The choice of the G7 is due to the importance of these seven countries in shaping global financial and economical issues. Being the seven highly industrial countries, they do not deal only with economical issues but they sometimes also tackle important political issues.

With the establishment of the G7 in 1975, the main issues they dealt with were related to international liquidity, bank lending, monetary policy, trade balances, and other economic issues. But they sometimes widened their agenda to include other issues such as terrorism, arms control, ethnic or religious conflicts, the situation in the ex-Soviet Union states, the problem of drugs and the environment.

The research question dealt with in this thesis is: Why is summit diplomacy used as a tool by the Group of Seven and how effective it is in the implementation of their foreign policy? The time period to be covered is from 1975 up till our present time. [1975 being the date of the first G7 meeting]. The key units of analysis are the G7 members. The thesis examines how G7 summits have tackled major common problems, namely: the issues of the international monetary system, trade, unemployment, Russia, the Middle East, the environment, and other important issues.

For the theoretical framework, both the realist and the liberal theories will be analyzed. In the theoretical analysis, the realist point of view and the liberal point of view will be given as related to the topic dealt with. In order to reach an answer for the research question, it is important to look at both theories and see whether summit diplomacy was used by the G7 to fulfill their own national and security interests [realism]; or was it used to accomplish cooperation among these states on many important and non-security issues, mainly welfare, economics and ecological issues [liberalism].

To begin with, I will formulate the following hypotheses:

H1- Summit diplomacy will avoid the delay of time, because of fewer decision makers involved and will facilitate the work of other diplomatic job holders, because it can help establish friendly relations.

H2- The G7 countries resort to summit diplomacy because the critical national and security interests they had to deal with required the activation of their foreign policy through the highest level of the diplomatic channel.

H3- Summit diplomacy is used by the G7 as an instrument to manage political and economic interdependence.

On the other hand, we can have some counter hypotheses:

H4- Summit diplomacy is not very effective because it can be negatively affected by the personality of the leaders, their awareness of the issue discussed and their relationship with the other leaders in the meetings.

H5- The G7 summit diplomacy is not always very effective because some of the issues and problems dealt with were not solved, and some decisions taken were not implemented.

### **Outline of the Chapters**

Chapter one had introduced the main topic, the research question and the hypotheses related to the issue that will be dealt with in the thesis.

Chapter two will provide background information on diplomacy, its origins and its developments; on summit diplomacy, its beginning and its importance; and finally on the G7 origin, members, and the issues dealt with at its summits. This chapter will show the importance of diplomacy since its early practice; the development of summit diplomacy from a response to major crises to an institutionalized practice, its advantages and its disadvantages; the reasons behind the establishment of the Group of Seven, and its objectives.

Chapter three will present the theoretical perspective using both the realist theory and the liberal theory. The background of each theory will be given, in addition to a presentation of its ideas, its principles and its point of view concerning the behavior of states in the international system. The final part of this chapter will show both the realist point of view and the liberal point of view as related to the importance of the issues discussed during the G7 summits.

Chapter four will present the G7 summits according to their cyclical occurrence. The first cycle will deal with the first seven summits [1975-1981], the second cycle will deal with the following seven summits [1982-1988], the third cycle will deal with the third stage of summits [1989-1995], and the fourth cycle which is not yet completed will be dealing only with the last three summits [1996-1998]. Each cycle will be presented through a table giving information about the date, the place, the participants and the main issues dealt with in each summit. Each table will be followed by an analysis of the prevailing conditions of the international system during the period of the cycle, and their influence on the issues dealt with in the G7 summits during these seven years.

Chapter five will look into the economic issues that the G7 summit meetings have dealt with. The issues chosen to be presented in this chapter are: the international monetary system, trade, and unemployment. This chapter will summarize these issues, and analyze how the G7 summits have dealt with them. It will also highlight the achievements of the G7 in the areas of stabilizing the international monetary system, and the liberalization of trade; and its inability to find solutions to the problem of unemployment.

Chapter six will present the political issues that the G7 summits have dealt with. The issues that will be presented in this chapter are the following: international terrorism, arms control, the conflict in the Middle East, the crisis in Bosnia, the help for Russia, and the protection of the environment. Following some background information on each issue, the chapter will explain its importance for the G7 countries, the way the G7 summits have dealt with it, and the accomplishments that were achieved.

Chapter seven will summarize the main points made in the thesis, and attempt to provide an answer to the research question posed earlier in the introduction. The conclusion shall also evaluate the relative merits of the realist and liberal theories as far as the case of the G7.

This study argues that despite all the ceremony surrounding the G7 summits, they did deal with substantive and conflictual issues. They provided the leaders of the industrialized world with a forum to coordinate their policies, in which they had gathered for a yearly meeting for approximately the last quarter of a century [24 yearly meetings].

The importance of these summit meetings can be seen by their effects on the international economic and political systems, as well as on the mainly economic policies of member states. Although the Group of Seven could not be considered as an organization with any binding authority since it lacks a fixed headquarter, a secretariat, and a permanent staff, it was able to influence the policies of member states and the work of major international bodies. The summits had an impact on the work of the IMF and the World Bank as related to financial and monetary issues, on the work of the GATT and the WTO as related to trade issues, and on the UN family [especially the Security Council] as related to political and military issues. The Group of Seven as superficial and ineffective as it may apparently look, can be quiet effective and important behind the scenes.

# Chapter Two

## Historical Background

The introduction has presented the topic of the thesis, the research question and the hypotheses about the issue to be discussed in this thesis, namely summit diplomacy, in addition to introducing both theories that will be dealt with in the theoretical analysis of the G7 summits. This chapter will give an overview of diplomacy; a concise background about the evolution of summit diplomacy and about the case study to be dealt with, namely the Group of Seven summits.

### 1-Diplomacy

Since the beginning of humanity, people, societies and states got into conflicts in their different areas of interaction. As a result, they were faced with two options: either to clash or to find some rational and peaceful solution to their disputes, by listening to each other and reaching some compromises. This art of negotiation and bargaining evolved through the ages to be later called diplomacy.

Diplomacy can be defined as “ the established method of international discourse or the art of managing international relations, chiefly by negotiation.”<sup>1</sup> But negotiation was not the only

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1- Diplomacy, The New Encyclopaedia Britannica, Vol17, p331

concern of diplomacy. It had other major functions like exchanging messages, keeping good terms between governments and “ the protection of a state’s citizens abroad.”<sup>2</sup>

Diplomacy has been also differentiated from foreign policy by defining it as the instrument by which the goals of foreign policy are implemented. Its importance began to show over the years until it became institutionalized in the states-system. Especially because states were aware that this tool was indispensable for them to achieve many of their foreign goals.<sup>3</sup>

The roots of the present diplomatic practice have their origin in the Ancient Greek civilization. In the Greek diplomacy, “heralds” or the special envoys of the state were playing somehow the role of diplomats. The Greeks contributed to the evolution of this art of communication by developing a diplomatic vocabulary and archives.<sup>4</sup> The Romans inherited the Greek system of diplomacy but they made also other developments especially in the area of international law. The Byzantine Empire, which emerged after the fall of the Roman Empire, saw the beginning of professional diplomacy. The role of the diplomat became more important with the rise of modern diplomacy in Italy during the thirteenth and fourteenth centuries. The term ambassador became more common during the fifteenth century. These ambassadors had in addition to their role of reporters, two other functions of representatives and negotiators.<sup>5</sup> The rulers did not find it suitable to personally travel long distances in order to make direct contact with each other. So they appointed these ambassadors to represent them and negotiate when necessary on their behalf. Still, they didn’t have a fixed job and were temporarily appointed.

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2- G. R. Berridge, International Politics, New York, 1987, p166

3- Ibid, p167

4- Diplomacy, The New Encyclopaedia Britannica, Vol. 17, p332

5- Harold Nicolson, Diplomacy, London, 1964, pp12-13

It was not until the sixteenth century that permanent missions were sent to represent their governments in host states.<sup>6</sup> With the necessity of staying for a longer period of time away from their homeland, in addition to the slow ways of communication, diplomats were given more freedom of action and more initiatives. What made their task easier was the fact that different European states shared in that period almost the same “autarchical” system, so it was possible to predict some of their intentions and behavior.<sup>7</sup>

Until the late eighteenth century, diplomacy was mainly concerned with preserving a balance of power and a stable international system between the European states. The diplomatic practice was in the hand of a few privileged states namely the five great European powers: France, Great Britain, Austria, Russia, and Prussia. The reason is that during that period, “only great powers exchanged ambassadors”.<sup>8</sup>

A shift in the diplomatic practice and in the role of the diplomat occurred in the beginning of the nineteenth century and with the new technological innovations, which facilitated communication between countries, i.e., steam engines and telegraphs. The speed of communication helped in a way for a more rapid dispatch of reports and a better reception of instructions. But from another way it limited the role of ambassadors as “policy- makers”.<sup>9</sup>

What affected mostly the role of the diplomat was the shift from the autocratic to the democratic system. So, the diplomat was no more representing a single ruler. The real power of administration shifted to the hands of parliaments rather than monarchs. Diplomats had to refer to and be under the supervision of many, rather than one decision-maker.<sup>10</sup>

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6- Michael Roskin, Nicholas Berry, I.R: The New World of International Relations, New Jersey, 1993, p314

7- Gordon Craig (Ed), The Diplomats, New York, 1965, p4

8- Diplomacy, The New Encyclopaedia Britannica, Vol 17, p334

9- Gordon. A. Craig, opcit, p4

10- Ali Al-Shami, Al Diplomacia, (Diplomacy), Beirut 1990, p104

There has been a shift in the diplomatic practice with the appearance of conference diplomacy in Europe. This kind of diplomacy took place especially after certain conflicts, namely the Congress of Paris of 1856, which was a consequence of the Crimean War. Up till the late nineteenth century, diplomacy was a vocation practiced in the European continent and between the great European powers. So its aim was “European stability, not universal equality”, which was maintained through the system of the Concert of Europe.<sup>11</sup> The Old Diplomacy was the one prevailing then, with Europe as its international scene and the great European powers as its actors. In addition to its secrecy, to its approximately identical diplomatic services in every country in Europe, it was mainly concerned with the preservation of peace.

In the early twentieth century, professional diplomats were the ones in charge with the implementation of foreign policy and they even sometimes shared in the policy making.<sup>12</sup> But when WWI took place, diplomacy began to be viewed differently and the role of the diplomat changed also. After the horrible results and bad consequences of WWI, many people revolted against the prevalent political system and practices and among them the diplomatic practice. Those were people who supported the new democratic system of government, they saw in the Old diplomacy a hindrance to democracy and they blamed diplomacy for its confidential aspect and secret treaties.

That is why a new diplomacy was needed namely an Open Diplomacy as compared to the Old Secret Diplomacy. A great shift occurred in the diplomatic practice, especially to negotiations, which could no longer be held secretly as before. The main supporter of Open Diplomacy was President Woodrow Wilson. In his fourteen points in 1919, he talked about

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11- Abba Eban, The New Diplomacy, New York, 1983, p340

12- T.A. Coulombis, Jame H. Wolfe. Introduction to International Relations, New Jersey, 1990, p140

“open covenants, openly arrived at”.<sup>13</sup> But this issue was subject to debate, whether negotiations should be open or just their results. Stalin also was against secret diplomacy, and in his Peace Covenant of 1917 he declared the abolishment of secret diplomacy and the practice of public and open negotiations.

But even these two main supporters of Open Diplomacy did not always abide by this new change in the practice of diplomacy. And secret treaties still took place in the inter-war period. But what could be guaranteed was that the results of these treaties were publicized. This was assured by Article 18 of the League of Nations Covenant, which stated that all treaties, made by any of its members, should be registered and then published by its Secretariat.<sup>14</sup>

The period that followed WWII influenced also diplomatic practice. With the increase of number of independent and sovereign states, the diplomatic relations were no more restricted to the great powers but involved the majority of the states in the international system. Due to the complexity of the economic and political problems in this system and the widening of the diplomatic scene, more people were needed, especially experts from different fields to assist diplomats in the conduct of diplomatic relations. So, in addition to the permanent missions and embassies that were exchanged between states, some other special missions were needed. These missions were sent on a temporary basis and for specific cases.<sup>15</sup>

Another innovation of the post WWII period was the summit conferences. Due to the salience of the issues that emerged after WWII and especially during the tensions of the cold war period, the head of states were obliged to take matters into their own hands and lead negotiations by themselves.

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13- Abba Eban, *opcit*, p345

14- A. Le Roy Bennett, International Organizations, New Jersey, 1992, p432

15- Ali Al-Shami, *opcit*, pp126-127

This frequency of summit meetings involving head of states aroused the public interest and led to greater involvement of the mass media in covering such summits. The result was the abolishment of any form of secret diplomacy or secret treaties and the development of Open Diplomacy, which became the norm of the twentieth century.

But did summit diplomacy had its origins in the mid twentieth century? Where did the first practices of summit meetings begin and how did it evolve to become an institutionalized diplomatic practice? All these questions are to be clarified in the second part of this chapter.

## **2-Summit diplomacy**

All the definitions given to this kind of diplomacy have a certain point in common, which is the meeting of the highest-ranking officials of states.

As a definition I have chosen that of Elmer Plischke, in his book Modern Diplomacy, for being the most comprehensive:

“Simply stated it is diplomacy engaged by political principals above the cabinet or ministerial rank, including the participation of chiefs of states, heads of government, a few others who qualify by virtue of their official positions [such as presidents-elect, crown princes, and the ranking officers of international organizations], and certain agents of head of government who genuinely represent them at their level.”<sup>16</sup>

Summit diplomacy is not a new kind of diplomacy, associated with the modern century; rather it was applied centuries ago but very rarely and with different aims and mechanisms. The first real meeting of princes took place during the international congresses that followed

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16- Elmer Plischke, Modern Diplomacy: The Art and the Artisans, Washington DC,1979, p170

the long war between France and Austria and which resulted in the Peace of Westphalia in 1648. Many other congresses followed that could be viewed as summit meetings, given the participation of rulers, kings and high-ranking officials. The second important meeting at the summit level was the one that took place in November 1815 in France, following the defeat of Napoleon. It resulted in the creation of the Concert of Europe and the signing of the Quadruple Alliance by the four victors namely Austria, Britain, Prussia and Russia.<sup>17</sup>

In the century that followed [nineteenth century], summit diplomacy was in a way neglected, especially because of the collapse of monarchies and the shift from autocratic to democratic systems. It did not really come to the scene until after the second half of the twentieth century, with the beginning of the Cold War.

Following WWI and the Paris Conference of 1919, an Open Diplomacy was needed which can better suit the new democratic system of government. Summit meetings were encouraged as a part of this diplomacy because they will show the public the involvement of the heads of state in a positive way, leading to more cooperation and openness between states. The peace conferences following both World Wars were to be examples for the public on the importance of the presence of heads of state in conferences that followed such horrible wars.

A second element that helped in the development of summit diplomacy was the technological developments. Heads of state did not have to worry any more about travelling long distances, with their jet airplane ready to take them anywhere in just the duration of hours. From another point, their ability to “communicate by telephone, facsimile, video-link

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17- Diplomacy, The New Encyclopaedia Britannica, Vol 17, p334

and other electronic means has increased both the contact between political principals and their involvement in foreign policy matters.”<sup>18</sup>

This deeper involvement in foreign policy was also due to the gap between the diplomats and their heads of state that sometimes led to a lack of trust and lack of cooperation. Some leaders insisted on taking decisions by themselves when related to issues that they judged very critical. One of these leaders was the former British Prime Minister Margaret Thatcher who preferred to consult her own personal advisors rather than the diplomats in the foreign office, especially in the issues of relationship with other great powers.<sup>19</sup> What really helped also these leaders was the fact that in some countries more importance was to be given to the executive power in the domain of foreign policy at the expense of the diplomats and the foreign officers.

Another important development, which emphasized the need of summit diplomacy, was the politics of crisis that took place during the cold war. With the existence of two states or superpowers differing in ideology and foreign goals, possessing a nuclear capability and a willingness to use it as a deterrent, the situation could not always wait for solutions to be delivered through the diplomatic channels. That is why the interference of the heads of state themselves to solve these crises became the norm of that period. One such example was the involvement of President John Kennedy in the Cuban Missile Crisis of 1962. Another example was the “shuttle diplomacy” during the Nixon-Kissinger era.<sup>20</sup>

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18- David H. Dunn [Ed] , Diplomacy at the Highest Level: The Evolution of International Summitry, New York, 1996, p6

19- See Also, Thatcher, The Downing Street Years, London, 1993, pp463-469

20- See Also, Henry Kissinger, Diplomacy, New York, 1994

Almost all the foreign issues that arose during the Cold War between the two superpowers were referred back to the highest-ranking officials for solutions. For example, the issue of arms control, although well studied and discussed by military and foreign officers, still the SALT and the START treaties needed the attendance of the heads of state of the United States and of the Soviet Union, to be finalized.

But were the heads of state always able to deal with critical issues and crisis adequately? Were they well informed, well prepared about the issues to be discussed? These questions will be partly clarified when stating the advantages and disadvantages of summit diplomacy, and partly, through the chapters to follow.

The main advantages of summit diplomacy are as follows: First, it can avoid the delay of time that can occur through the diplomatic channels. Second, it can help leaders get to know each other more closely and on more informal basis, which may also lead to ease the tensions and create more trust in dealing with each other. For example, when President Gorbachev had meetings with the Presidents Reagan and Bush, they were able to reach some agreements, especially on the issues of arms control. While other Presidents found it very difficult to reach solutions to the problems they were dealing with because they used to address indirectly. Third, "meetings at summit level are also of value in symbolizing a change in the relationship between the parties resulting from the agreement of a new policy."<sup>21</sup> For example, the summit meeting between Yasser Arafat and Yitzhak Rabin in the White House in 1993 ushered in for a new era of relationship between the Israeli and the Palestinian people, or at least that is how it seemed in 1993. Fourth, the importance of the summit is that the sensitivity of the issues it dealt with, forced the leaders to come out with a result and put

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21- David H. Dunn, *opcit*, p248

time limit for their work by imposing “deadlines on a negotiation process “<sup>22</sup>, for two main reasons: 1) the leaders are not able to spend long time on negotiations, 2) a positive result reached at the end of a summit will be of a great importance to the image of the leader.

The disadvantages of summit diplomacy can be summarized by the following: First, leaders or heads of states may be good politicians but not always good diplomats. Their way in dealing with the issues in question at the summit will affect the whole process either positively or negatively. Second, the head of state is not always well informed about the issue in its small details. Either because of lack of time, [in case of sudden crisis] or because the leader himself does not like to read the details. This was the case with President Reagan who was always blamed by his advisers for not getting into the depth of the issues to be discussed before attending a summit. Third, if leaders are meeting for the first time, with no common background, traditions or language, it will be hard for them to reach an agreement because they will find it very tough to communicate properly their ideas and suggestions. Fourth, because of the wide involvement of the media during a summit meeting, some leaders may find themselves obliged to reach an agreement even though it is not the best one for them in order not to look as a failure in the eyes of the world.

### **3-The Group of Seven [G7]**

The Group of Seven is the name given to the yearly summit meetings of the seven highly industrialized states, namely, Britain, Canada, France, Germany, Italy, Japan, and the United States.

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22- Ibid, p250

The Group of Seven or G7 originated from the G10, which emerged in 1962 as the group of contributing countries to the General Arrangement to Borrow [GAB]. The membership of the latter group consisted of the following countries: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, the United Kingdom and the United States. The aim of the Group of Ten was to provide a forum to discuss problems relating to the functioning and structure of the international monetary system.

In 1967, five members of the G10, namely, Britain, France, Germany, Japan, and the United States, formed the G5 for the meetings of the finance ministers and central bank governors. In 1975, the G5 promoted another forum comprising the heads of states that began to meet at yearly summits. They became known as the G7 after Canada and Italy joined them. The main issues they dealt with were related to international liquidity, bank lending, monetary policy, trade balances and other economic issues. But they sometimes widened their agenda to include other issues such as terrorism, arms control, ethnic conflicts and the environment.

The two persons who were behind the shift in the meetings from the level of finance ministers to the level of heads of states, were: Valery Giscard D'Estaing and Helmut Schmidt, who were representing their countries as finance ministers in the early 1970's during the G5, finance ministers meetings. Both of them believed that meetings of heads of states without the presence of ministers, advisers, bureaucrats, and away from the press, will have a greater effect on exchanging ideas, reflecting upon critical issues, and coming up with proposals "from men who had the power to implement them in their respective countries."<sup>23</sup>

Because the G7 meetings dealt with economic issues and mainly with political economy, it is essential to look at the situation of the international political economy that prevailed

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23- J. D. Armstrong, in David H. Dunn, *opcit*, p42

when G7 meetings first took place. In the mid 1970's the international economy was just recovering from the 1973-74 oil crisis. The oil embargo that was imposed by Gulf States led to an inflation which could not be easily handled by the Bretton Woods Institutions which "were set up in the mid 1940's in an attempt to improve the performance of the world economy".<sup>24</sup>

These institutions, namely the International Monetary Fund and the World Bank, were by the early 1970's losing their strength and their aim for existence. This was due to many reasons, mainly:

First, to the financial changes in the international market due to the increase in capital flows and mobility and the growing "financial innovation in terms of lending instruments"<sup>25</sup>.

Second, both institutions were seen as suffering from "organizational inefficiency which arises from their bureaucratic nature and the reduced interest that has been shown in them by their principal share holders."<sup>26</sup>

Third, with the greater importance played by the European Community and the development of the European Monetary System, the IMF lost the value of its role.

Fourth, with the emergence of Japan and Germany as new economic powers, the United States could no more enjoy a hegemony over the Bretton Woods institutions, especially that this system was seen as putting constraints on its domestic policy.<sup>27</sup>

Fifth, the rise of the price of oil by the OPEC, which led to a severe inflation that could not be handled by the Bretton Woods system. This was the final blow that led to its collapse.<sup>28</sup>

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24- Graham Bird, *The Bretton Woods Institutions and the Political Economy of International Monetary Reform*, in *The World Economy*, Vol. 19 number 2, March 1996, p143

25- Ibid, p145

26- Ibid, p146

27- J.D. Armstrong, in David H. Dunn, *opcit*, p41

28- Ibid

So, one important reason for the existence of the Group of Seven was to fill somehow the gap that occurred with the weakening of the Bretton Woods institutions and the instability in the international financial regime. When the G7 began to meet at yearly summits, many important economical and financial issues that were emerging on the international scene had to be dealt with, namely, the debt crisis, the problem of unemployment and the problem of stabilizing currency fluctuations. Still, the G7 countries could not always be able to agree on solutions to these economical and financial problems, mainly because in this group itself we had most of the time different economical positions: the Japanese position, the American position, and the European position.

When did they argue, about what issues, and under which circumstances?

What was their impact on international political economy, and how effective were they in conducting foreign policy? This will be later explained in chapters four, five, and six.

## Chapter Three

### The Theoretical Perspective on the G7

In chapter two, diplomacy was defined as the tool by which foreign policy is implemented. The research question tried to find out why “summit diplomacy” was used as a tool to implement the foreign policy of the G7 states. From the theoretical point of view, we can investigate this question either according to the realist point of view, or according to the liberal point of view.

From the realist point of view, summit diplomacy was used by the G7 to fulfill their own national and security interests. This will lead us to hypothesis H2 stated in the introduction: “the G7 countries are involved in summit diplomacy because most of the issues dealt with are very critical to their security and national interests”.

From the liberal point of view, summit diplomacy was used to accomplish cooperation among the G7 states on many important issues, mainly welfare and economics. This will lead us to hypothesis H3 stated in the introduction: “summit diplomacy is used by the G7 as an instrument to manage political and economic interdependence”.

In order to be able to do the theoretical analysis, a review must first be made of both the realist theory and the liberal theory, as they apply to relations among states.

## 1-The Realist Theory

The realist theory has its roots in the writings of the ancient historian Thucydides. Among his basic assumptions: states as key actors, power as their central motivation, and rationality as their way of behavior.<sup>29</sup> This has been concluded from the analysis of his famous work: History of the Peloponnesian War. In this book we can see that both Athens and Sparta were the key actors before, during, and after the war, and they were mainly motivated by power. Athens expansion of power initiated a Spartan response by gathering its allies and challenging Athens hegemony. Sparta was considered to have acted in a rational way to Athens growth of power.

Another classical realist is Hans J. Morgenthau, who had presented in his work Politics among Nations, six principles of political realism.

The first principle stated that: "Political realism believes that politics like society in general, is governed by objective laws that have their roots in human nature."<sup>30</sup> So human nature is at the core of politics and it has a great influence on shaping international relations.

The second principle emphasized the concept of power by stating that: "The main signpost that helps political realism to find its way through the landscape of international politics is the concept of interest defined in terms of power."<sup>31</sup> This will lead to the conclusion that states and statesmen are motivated by power.

The third principle explained that the national interest and the content of the concept of power are determined by the political and cultural environment, which can change from one

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29- Robert O. Keohane, "Realism, Neorealism, and the Study of World Politics", in Neorealism and its Critics, New York, 1986, p7

30- Hans J. Morgenthau, Politics among Nations, p4

31- Ibid, p5

period to another: “Realism assumes that the key concept of interest defined as power is an objective category which is universally valid but it does not endow that concept with a meaning that is fixed once and for all”.<sup>32</sup>

The fourth principle emphasized the rationality of political realism: “Political realism is aware of the moral significance of political action.”<sup>33</sup> Meaning that any political action that will be taken by the state must take into consideration the consequences of such an action, and whether it is safe and beneficial for the people who are under its responsibility.

The fifth principle insisted on showing realism as rational rather than idealistic: “Political realism refuses to identify the moral aspirations of a particular nation with the moral laws that govern the universe.”<sup>34</sup> This means that states can not pursue politics according to idealistic, religious beliefs that will lead to destruction rather than expansion.

The sixth principle noted that:” The difference, then, between political realism and other schools of thought is real and it is profound.”<sup>35</sup> Political realism thinks mainly about the interest in taking any action. While the legalistic theory investigates the conformity with laws, and the moralistic theory weighs the morality of the action to be taken before deciding on it.

So, if we are going to follow the realist point of view in our analysis of the reason why summit diplomacy was adopted by the Group of Seven, we have to look mainly at the following issues: the first issue is the interest behind these summit meetings for each state

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32- Ibid, p8

33- Ibid, p10

34- Ibid, p11

35- Ibid

involved, and the second issue is the importance of the topics dealt with to the security and national interest of these states.

According to the realist analysis, any state action must be motivated by interest defined in terms of power. So, if a certain political action or conduct of foreign policy does not serve its interest, it is considered to be irrational and unacceptable. States, which are usually seen by the realists as acting rationally, must be always seeking to pursue their interests for the sake of their survival.

## **2-The liberal theory**

The liberal theory emerged during the sixteenth and seventeenth centuries, which witnessed important intellectual, economic, and political change. For liberalism, the key actors were states and non-state actors [NGOs, IGOs, MNCs] and their central motivation was the human wants and needs.

Liberalism can be associated with philosophers such as Baron de Montesquieu, Immanuel Kant, John Stuart Mill and the American President Woodrow Wilson. This theory did not become of real interest to the international relations scholars until the mid-twentieth century.

According to Joseph Nye, liberalism is the way of viewing “ a global society that functions alongside the states, and sets part of the context for the states. Trade crosses borders, people have contacts with each other, and international institutions such as the United Nations create a context in which the realist view of pure anarchy is insufficient.”<sup>36</sup>

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36- Joseph S. Nye Jr., “ Is There an Enduring Logic of Conflict in World Politics “, in Foundations of International Relations, 1993, p35

From the liberal point of view, the nature of international politics is changing. Security is defined in broader terms than the geopolitical-military spheres. Security involves welfare, economics, environment, and other important issues. So the “use of economic interdependence, communication, international institutions, and transnational actors sometimes plays a larger role than force.”<sup>37</sup> What can also counter the use of force, is the existence of international laws and customs. Although, not all states abide by these laws and customs all the time, the majority of states abide by them most of the time. Their importance is that once applied, they will help in solving disputes and in keeping a semblance of order in the contemporary international system.

What is to follow is an overview of the liberal theory and its point of view about economic interdependence, which can be stated as the main reason behind the use of summit diplomacy by the G7 countries. For the liberal international theory, people rather than the states are the important actors in the international system. So, according to it, what comes first is human freedom, which can be best realized by the increase in international cooperation that is helped by the progress in technology and the process of modernization.<sup>38</sup> Human freedom encompasses the social, economic, and political freedom. Social and economic freedom is to express ideas freely, to have equal rights for health care, education, and employment, in addition to be equally treated under the law. Political freedom is expressed through democratic participation and representation.

Further to human freedom and civil rights, liberalism stresses the importance of the rights of private property and the importance of the market in shaping the economy.<sup>39</sup>

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37- Ibid, p38

38- Mark W. Zacher, Richard A. Matthew, “ Liberal International Theory: Common Threads, Divergent Strands”, in C.W. Kegley Jr., Controversies in International Relations Theory, [New York, 1995], p110

39- Richard Ned Lebow, International Relations Theory and the End of the Cold War, [New York, 1995], pp87-88

The market is seen by the liberals as “an open global market where goods and services can pass freely across national boundaries”.<sup>40</sup> Liberals such as Adam Smith, J. A. Hobson, and Norman Angel were all supportive in a way or another of the free market as the best mode of economic behavior. Coupled with the free market, democracy should be the political mode of government in order to have peace and harmony among states.<sup>41</sup> Peace should be the prevalent state of affairs, especially in democratic states while war is associated with undemocratic states. So, according to liberals, the cure for wars is democracy and free trade. “Free trade and commerce would overcome the artificial barriers between individuals and unite them everywhere into one community.”<sup>42</sup>

All liberals argue that for one reason or another, liberal democracies are more peaceful than authoritarian, non-democratic states. Democratic states and especially industrialized states seek for the welfare of their countries and the increase of their economic progress. With the increased interdependence between these states, the conduct of their foreign policy becomes of crucial importance. This is because a perturbation in foreign relations can negatively affect the economic relations of the states concerned.

This economic interdependence was the main reason behind the meetings of industrialized states at the level of heads of state, namely, the G7 summits.

These seven highest industrialized states are aware that in order to reach their domestic and foreign goals they have to cooperate among themselves for the well being of their citizens, by avoiding conflicts and wars. They also have to work for the continuous development of their

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40-Scott Burchill, Theories of International Relations, [New York, 1995], p55

41- Mark W. Zacher, *opcit*, pp113-114

42- Scott Burchill, *opcit*, pp31-32

economies, by regulating their economic relations and by trying to solve the major and common problems that face them.

From the liberal point of view, this is the right behavior for democratic peaceful states that are trying to avoid a state of war, which will be harmful to their citizens, their economies, and their countries as a whole. Diplomatic efforts, summit meetings, and negotiations are better ways to deal with conflicts and to avoid situations that could lead to major crisis. This is safer in a world where most of these industrialized states possess nuclear weapons, and they are linked together through economic interdependence, in a way that the collapse of one state will inevitably affect the economies of the other states.

Liberals are optimistic by the way industrialized states are dealing peacefully with each other. This avoidance of wars and the insistence on solving their conflicts through peaceful means give credit to the liberal assumptions and make them more confident that “we have already entered a period in which war as an instrument of international diplomacy is becoming obsolete.”<sup>43</sup> This optimism is due to the assumptions of liberals like Francis Fukuyama that the whole world will be following the western liberal-capitalist democracy system, where wars are avoided and diplomatic, peaceful channels are encouraged.<sup>44</sup> He emphasizes this position by stating that the past two centuries showed that rarely if ever a war was waged between democratic states.

According to liberal scholars, democratic states are more oriented towards cooperation than towards wars, for the following reasons: First, they are more interested in “economic welfare and international commerce rather than military glory.”<sup>45</sup> Second, they are less

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43-Ibid. p33

44-See also, Francis Fukuyama, The End of History and the Last Man, [London, 1992]

45-Mark W. Zacher, *opcit*, p123

subject to misjudgment because of their openness and transparencies.<sup>46</sup> Third, the population that is the majority will not accept to bear the consequences and costs of the war by supporting the leaders who are the minority.<sup>47</sup>

According to this argument, democratic states are more inclined to satisfy the needs of their populations, being considered as welfare states, and to try to spare them harm, by choosing cooperation rather than conflict. Democratic states are considered to be more interested in economic gains and industrial progress rather than military gains and expansionist aspirations. This is because the military developments and especially the proliferation of nuclear weapons to more states had made a war between those states equal to a world disaster, thus the role of the nuclear weapons as a deterrent.

With the emergence of the new world order after the end of the cold war, new developments had taken place on the international scene. First, the bipolar system was replaced by a multipolar system where the two military powers are replaced by many economic powers. Second, the conflict between East and West being over, economic barriers began to be removed, and interdependence became more global. Third, the influence of the liberal international theory in the post Cold War period can be seen by “the recent proliferation of free trade agreements and associations such as NAFTA, APEC, and GATT [now WTO] and the growing importance of international organizations such as the G7, the IMF, and the World Bank.”<sup>48</sup>

But recently, the European and North American states had become more protectionists, and had begun to shift from the free market principles. In order to protect their domestic economic policies, these states had to make some changes to the global international

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46-Ibid.

47- Ibid

48- Scott Burchill, opcit, p57

economy and trade in order to become more suitable for them. Although they had managed to reduce tariffs, they had replaced them “ by a wide assortment of non-tariff barriers, including import quotas and voluntary restraints agreements.”<sup>49</sup> This issue will be widely discussed during the G7 summit meetings and especially between the United States and the European states. All these changes in the international political and economic systems gave the Group of Seven more issues to debate and more responsibilities to hold. But what still has to be clarified, is the reason behind the survival of the G7 as an example of institutionalized summit diplomacy.

### **3-Evaluation**

The G7 summits emerged after the collapse of the Bretton Woods system, and in a way, they have tried to fill the gap that occurred after this collapse.

The Bretton Woods system had for its main task to deal with the international financial situation, and to try to solve some of the major problems prevailing in that period. The Group of Seven, which originated from the G10, that aimed at dealing with the problems of the international monetary system, had to widen its agenda in order to deal with other issues of importance to the member states.

If we want to follow a realist analysis of the G7 work, we have to assume at first that these highly industrialized states and especially their heads of state are mainly motivated by the fulfillment of their interests, mainly to maintain their status, the world’s powerful states, at least in the economic arena. In another words, the members of the G7 are mainly trying to

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49-Ibid

take the greatest advantage from these meetings in order to gain more at the expense of the other states. This can be seen as a zero-sum game, whenever one side will gain the other will lose. And this will make these states more oriented towards achieving their domestic and foreign goals. From another side, the realist analysis will lead us to conclude that these states will only accept to discuss and deal with issues that are in the benefit of their own interest, and will refuse to deal with issues non-beneficial for them, even if they are globally beneficial. Whether this is true for the G7 states, this will be investigated and shown in the following chapters of this paper.

From the liberal point of view, the G7 summits are mainly encouraging cooperation among states and trying to deal with the major problems facing interdependence in the international economic and monetary systems. The heads of states gathering in the G7 summits have in their mind the welfare of their states and their citizens, and are trying to achieve the most benefits by cooperating among themselves and by trying to overcome the problems that may face them. So, we can say that these democratic industrialized states may accept some compromises in order to solve a common global problem, for which solution will inevitably benefit them in a highly interdependent world. Here states will be playing a non-zero-sum game, where the gains are divided among all states concerned and we do not have a major winner and a major loser.

The liberals argue that these compromises are more to the benefit of these states than entering into conflicts, for at least two reasons: First, because conflicts that may escalate into wars can not be the choice of democratic, highly industrialized states, which are more oriented towards welfare and cooperation. Second, because in this very complex

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interdependent world wars may lead to more losses than gains, and this will not be a rational behavior for democratic states.

Whether the analysis and assumptions of this theory fit the case of the G7 summits will be discussed in our following chapters.

## **Chapter four**

### **The G7 Summits**

The seven highest industrialized states will have met this year for their twenty-fourth G7 summit. Although still not formally declared, the G7 is best referred to now as G8, especially after the involvement of the Russian President Boris Yeltsin since 1997 in the discussions and in the decision making process.

Throughout this thesis these summits will still be referred to as the G7 summits because the study will be mainly dealing with the period that preceded the access of Russia as an eighth member. The work in this thesis will not be oriented toward a year by year analysis, rather it will stress on the main issues that were dealt with all throughout the summits. To make things easier on the reader, the basic facts about the G7 summits [dates, locations, participants and issues] will be presented in the form of tables [Tables 1 – 4].

The G7 states hosted the summit meetings each time in a different main city, not always in the capital, with the exception of Japan, which kept Tokyo as the only host city of the summit meetings it hosted. During the two to three days of the summit the participant leaders enjoyed from time to time, a program of entertainment offered by the host city. The timing of the meetings was usually scheduled for three days between the month of May and the month of July.

The leaders who participated in these summit meetings were: the Presidents of France and the United States, the Chancellor of Germany, and the Prime Ministers of Britain, Italy,

Japan, and Canada; in addition to the presence of the President of the European Commission and sometimes, the President of the European Council as observers.

The main issues that were dealt with were mainly financial and economical issues in the early summits, but other important political issues were given attention namely, the issues of the Middle East, the situation in the ex-Soviet Union, the crisis in the ex-Yugoslavia, the problem of terrorism and environmental degradation.

At the end of each summit a “communiqué” is issued, which presents the issues dealt with during the summit and summarizes the accomplishments reached at. Usually, each “communiqué” begins with a preamble declaring the parties present and the main reason for the meeting. It is followed by a presentation of the issues discussed and the results that were agreed upon, either point by point, or divided into topics. The final declaration is a commitment to meet next year, accepting the invitation of another host state.<sup>50</sup> During the 1970’s and early 1980’s, “communiqués” used to be brief and containing mainly declarations about economic issues. From the mid 1980’s till now, “communiqués” became more extended to declarations about political as well as economic issues.

The Group of Seven has adopted a cyclical way for scheduling their summits. France had hosted the first summit in 1975, the next year the summit took place in the United States, then in Britain, in Germany, in Japan, in Italy and in Canada to end the first cycle and begin the second cycle with France followed by the other G7 states.

The tables will be divided according to the cycles of the summits: the first table will give the information about the first cycle, namely the years 1975-81.

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50-See an example of a text of a “Communiqué” in Appendix 1.

The second table will give information about the second cycle, namely the years 1982-88. The third table will give information about the third cycle, namely the years 1989-95. The fourth table will give information about the fourth cycle, namely the years 1996-98.

**Table 1: first cycle [1975-1981]**

Year/ Date	Place	Participants	Issues
1975 November	Rambouillet France	V.G.d'Estaing [France] R. Nixon [USA] H. Wilson [Britain] H. Schmidt [Germany] M. Takeo [Japan]	International monetary system, the problem of inflation
1976	Port Rico United States	V.G.d'Estaing R. Nixon J. Callaghan H.Schmidt M. Takeo G. Andreotti [Italy] P. E. Trudeau[Canada]	Monetary system Inflation Unemployment
1977	London Britain	V.G.d'Estaing J. Carter J. Callaghan H. Schmidt F. Takeo G. Andreotti P. E. Trudeau	Monetary system Inflation Unemployment
1978 16-17 July	Bonn Germany	V.G.d'Estaing J. Carter J. Callaghan H. Schmidt O. Masayoshi G. Andreotti P. E. Trudeau	Inflation Unemployment Fall of the dollar value Decrease in economic development
1979 26-28 June	Tokyo Japan	V.G.d'Estaing J. Carter J. Callaghan H. Schmidt O. Masayoshi F. Cossiga P. E. Trudeau	Inflation Unemployment Energy
1980 22-23 June	Venise Italy	V.G.d'Estaing J. Carter M. Thatcher H. Schmidt Japanese Minister of Foreign Affairs A. Forlani P.E. Trudeau	Afghanistan Energy Monetary system
1981 19-21 July	Ottawa Canada	F. Mitterand R. Reagan M. Thatcher H. Schmidt S. Zenko G. Spadolini P.E. Trudeau	Unemployment US interest rates Trade Middle East conflict Soviet military power International terrorism

Monetary and economic issues dominated the agenda of the first cycle. After the collapse of the Bretton Woods system in the early 1970's and the 1973-74 oil crisis, the reestablishment of a stable international monetary system was the main concern of these highly industrialized states. The issues that were repeatedly dealt with were the issues of unemployment, inflation and the deterioration of the value of the US dollar. This latter issue was putting a high pressure on the central banks that were no longer ready to interfere in the currency markets in order to protect the dollar value. Because of this interference and the accumulation of huge amount of dollars in these banks, the latter incurred great loss due to the difference in the market price and the official price of the dollar compared to gold.

The European states were ready to discuss some solutions in order to help ameliorate the situation of the dollar. But they were not ready to bear the costs of this amelioration, namely by increasing their public indebtedness or by increasing taxes on their citizens.

By the end of this first cycle, the European states could not have a guarantee from the United States to reduce its interest rates. This situation of American high interest rates was causing bad consequences for the European states namely, a decrease in investment and an increase in unemployment.

The first seven summit meetings showed that although these seven states were trying to find solutions to their common problems and to stabilize the international financial and economic system, still each country and especially the United States were giving priority to strengthening their domestic situation. A global agreement on solutions to the problems of the international financial and economic systems could not yet be reached.

**Table 2: second cycle [1982-1988]**

Year / Date	Place	Participants	Issues
1982 4-6 June	Versailles France	F. Mitterand [France] R. Reagan [USA} M. Thatcher [Britain] H. Schmidt[Germany] S. Zenko [Japan] G. Spadolini [Italy] P.E. Trudeau [Canada]	Unemployment Int'l monetary system Financial relations with the East Developing Countries Middle East conflict
1983 28-30 May	Williamsburg United States	F. Mitterand R. Reagan M. Thatcher H. Kohl Y. Nakasone A. Fanfani P.E. Trudeau	Inflation Unemployment Protectionism Developing countries Energy conservation Arms control
1984 7-9 June	London Britain	F. Mitterand R. Reagan M. Thatcher H. Kohl Y. Nakasone B. Craxi J. N. Turner	International debt Inflation Iran-Iraq war East-West relations Int'l terrorism
1985 2-4 May	Bonn Germany	F. Mitterand R. Reagan M. Thatcher H. Kohl Y. Nakasone B. Craxi B. Mulroney	GATT Arms control Drug traffic
1986 4-6 May	Tokyo Japan	F. Mitterand R. Reagan M. Thatcher H. Kohl Y. Nakasone B. Craxi B. Mulroney	Third World Debt G7 finance ministers Uruguay Round Terrorism Nuclear accidents Environment East-West dialogue
1987 8-10 June	Venise Italy	F. Mitterand R. Reagan M. Thatcher H. Kohl Y. Nakasone B. Craxi B. Mulroney	Trade/ GATT Gulf security Nuclear arms reduction Helping poor countries
1988 19-21 July	Toronto Canada	F. Mitterand R. Reagan M. Thatcher H. Kohl N. Takeshita C. De Mita B. Mulroney	Debt of LDC's Agriculture Lowering interest rates Uruguay Round Terrorism Environment

The second cycle of summits that took place in the 1980's knew mainly two successes: First, G7 members achieved agreement on how to deal with the international debt problem of the LDC's, by giving the suitable recommendations to the Club of Paris [the creditor countries]. The G7 supported the case-by-case approach for dealing with the debt problem, where all the creditor states will meet with each debtor state alone to discuss its case. Second, the G7 countries were able to agree on macroeconomic policy coordination in order to be able to deal with the problem of high interest rates and the problem of exchange rates fluctuations.

During this cycle, there was a shift in the attention of the G7 member states from mere economic issues, to other political issues that could affect the international system. This was mainly due to the economic progress that was achieved in the 1980's. With least pressure from the international economic system, the G7 states were able to deal with more political issues. From another side, the arms control negotiations taking place during that period, President's Gorbachev new policy of Perestroika and Glasnost, and the growing influence of international terrorism, were issues that could not be neglected by the G7 states, and they had to be put on the agenda of their summits.

In addition to issuing recommendations the G7 states were able to refer some of these issues to more binding forums and organizations namely, the Security Council of the United Nations.

**Table 3: third cycle [1989-1995]**

Year / Date	Place	Participants	Issues
1989 14-16 July	Paris France	F. Mitterand [France] G. Bush [USA] M. Thatcher [Britain] H. Kohl [Germany] S. Uno [Japan] C. De Mita [Italy] B. Mulroney [Canada]	LDC's Debt problem Trade Environment War against drugs International terrorism
1990 9-11 July	Houston United States	F. Mitterand G. Bush M. Thatcher H. Kohl T. Kaifu G. Andreotti B. Mulroney	Agriculture Help for USSR Uruguay Round Nuclear non-proliferation Environment
1991 15-17 July	London Britain	F. Mitterand G. Bush J. Major H. Kohl T. Kaifu G. Andreotti B. Mulroney	Sanctions on Irak Gorbachev politics Uruguay Round Debt problem East Europe's reforms Environment
1992 6-8 July	Munich Germany	F. Mitterand G. Bush J. Major H. Kohl K. Miyazawa G. Andreotti B. Mulroney	Uruguay Round Help for Russia Nuclear reactors in East Europe Bosnia's crisis Environment
1993 6-9 July	Tokyo Japan	F. Mitterand B. Clinton J. Major H. Kohl M. Hosokawa G. Andreotti K. Campbell	GATT Bosnia Russia's reform Non-Proliferation Treaty Strengthening the United Nations
1994 8-10 July	Naples Italy	F. Mitterand B. Clinton J. Major H. Kohl T. Murayama S. Berlusconi J. Chretien	Liberalization of trade Unemployment Help for Ukraine Bosnia Rwanda Haiti Algeria
1995 14-17 June	Halifax Canada	J. Chirac B. Clinton J. Major H. Kohl T. Murayama L. Dini J. Chretien	Trade/ WTO Strengthening international institutions Bosnia's crisis Middle East Conflict Nuclear weapons

The third cycle of summit meetings dealt more with political issues. This was mainly due to the important changes that occurred in the international political scene namely the collapse of the Soviet Union and the emergence of the New World Order, the Gulf War, the crisis of the ex-Yugoslavia and the way to deal with the emerging Russian state. Other issues that were dealt with were the issue of the environment, the issue of unemployment, and the issue of trade.

The economic situation in the first half of the 1990's was mainly affected by increased unemployment, especially that it was very high even in some of the industrialized states. The conclusion of the Uruguay Round and the creation of the WTO were also important achievements regarding the issue of the liberalization of trade. And finally, the Mexico crisis of the end of 1994, which was a threat to the international monetary stability, showed the importance of strengthening the international financial institutions in order to be able to adequately deal with any future financial crisis.

The political situation in that period was mainly influenced by the collapse of the Soviet Union and the end of the Cold War. There emerged an important issue of dealing with Russia and the other ex-Soviet Union states in order to help them recover economically and change their political system, from communism to democracy. Another issue of importance to deal with was the war in ex-Yugoslavia, which caused a threat to European stability.

**Table 4:Fourth Cycle [1996-2002]**

Year / Date	Place	Participants	Issues
1996 26-28 June	Lyon France	J. Chirac [France] B. Clinton [USA] J. Major [Britain] H. Kohl [Germany] R. Hashimoto [Japan] L. Dini [Italy] J. Chretien [Canada]	LDC's debt Trade Unemployment Help for developing countries Strengthening the international organizations
1997 20-22 June	Denver United States	J. Chirac B. Clinton T. Blair H. Kohl R. Hashimoto R. Prodi J. Chretien B. Yeltsin [Russia]	Sanctions on Iraq Middle East peace process NATO's expansion International terrorism Drugs traffic Hong Kong
1998 15-17 May	Birmingham Britain	J. Chirac B. Clinton T. Blair H. Kohl R. Hashimoto R. Prodi J. Chretien B. Yeltsin	Middle East peace process India's nuclear experiments Situation in Indonesia Third world debt

Only three meetings already took place of the fourth cycle, but important developments occurred in these meetings. The beginning of this cycle knew a major change in the structure of the G7 summit meetings namely, the participation of the Russian leader in the meetings, representing the new eighth member: Russia.

Political issues were taking a greater part in the discussions of the G7 meetings. This shifted the main objective of the creation of the G7, from managing the international financial system, to managing the whole international system. One issue was the deadlock in the Middle East peace process, another issue was the nuclear weapons in Iraq, India and Pakistan.

Still, another important issue was the necessity of working for global partnership between the developed countries, the developing countries and the international organizations.

# Chapter Five

## Economic issues

After having presented an overview on the G7 meetings, we will be dealing now with the important economic issues that were seen as facing some kind of problems which needed to be tackled by these states. Some of these problems were temporary and could be solved more easily, like some of the monetary and financial issues. While other problems were permanent and more complicated, like the problem of unemployment.

The main issues that are to be dealt with in this chapter are the ones that made it to the agenda of almost all the G7 summit meetings. Three main issues fit this criterion: the international monetary system, the liberalization of trade and the problem of unemployment.

### **1- Managing the International Monetary System**

In the mid 1970's when the Group of Seven began to meet, their main focus had to be on the unstable international monetary system which resulted from the oil embargo of the years 1973-74, and the collapse of the Bretton Woods international financial system. All states can be positively or negatively affected by the changes in the international monetary system. According to its definition as "a set of rules or conventions governing the economic policies of nations"<sup>51</sup>, the instability in the international monetary system will directly affect the

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51- Jeffrey A. Frieden, David A. Lake, International Political Economy: Perspectives on Global Power and Wealth, New York, 1995, p230

economic stability of most states, as well as the economic instability in one state can affect the international system as a whole.

The international monetary system that preceded the G7 summit meetings knew different stages.

The first stage was from the early nineteenth century till the pre-WWI period. It was characterized by the classical gold standard or the gold-sterling standard.

The second stage was the one that dominated the period between the two world wars. With the collapse of the British financial market and the isolationist position of the United States whose market was the only one kept alive, the gold-sterling standard could only be replaced by a gold exchange standard, “where most countries went back to tying their currencies to gold, but no single national currency came to dominate the others.”<sup>52</sup>

The third stage began after WWII and with the construction of the Bretton Woods system. This system differed from the one in the first stage by having the dollar at the core. Other currencies are tied to the dollar, which in turn is tied to gold.

The fourth stage is the current one, which followed the collapse of the Bretton Woods system. From 1975 and on, “the gold-dollar standard had been replaced by the floating-rate system.”<sup>53</sup> This was the system that the G7 had to manage when they started their meetings in 1975.

Before dealing with the current system and the role that the G7 played in it, we must take a look at the Bretton Woods system and the reason for its collapse.

At the end of WWII the United States was emerging as a new economical power, while other European powerful states were facing some critical economical problems, which were

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52- Ibid, p204

53- Ibid, p205

due to the great losses that they had endured during the long war. The situation became even worse for these states with the financial situation prevailing after the collapse of the international monetary system in the 1930's. One of the solutions to deal with this major problem was the creation of a new international monetary order, which was done with the creation of the Bretton Woods system in July 1944. This system had for its goal "to establish an international economic system that would prevent another economic and political collapse and another military conflict."<sup>54</sup>

The Bretton Woods agreement contained a set of rules that had to guarantee a system of fixed exchange rates. It specified also that the system had to be managed by two international organizations, namely: the International Monetary Fund [IMF] and the International Bank for Reconstruction and Development [IBRD or World Bank].

The IMF was given the responsibility of monitoring the exchange rate policies of its members which are around 179 members, represented each in the Board of Governors, "the ultimate governing authority within the fund".<sup>55</sup>

The IMF is constituted also of an Executive Board [24 directors, 5 appointed and 19 elected] to conduct the daily work of the IMF. The administrative head of the organization is the managing director, "whose responsibilities include chairing the Executive Board, participating in the combined IMF-World Bank meetings, advising the Group of Seven leading industrialized countries, and overseeing the Fund's professional staff."<sup>56</sup> The IMF had also a staff of international civil servants and a council.

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54- Joan Edelman Spero, The Politics of International Economic Relations, New York, 1990, p31

55- C. Roe Goddard [ed.], International Political Economy: State-Market Relations in the Changing Global Order, London, 1996, p217

56- Ibid

The International Monetary Fund used to perform its surveillance role through a regime of flexible currency. Under this regime known as the peg-and-band system, “members sought to keep daily fluctuations in currency value within one percent of the value at the beginning of the trading day.”<sup>57</sup> In addition to its role of surveillance, the IMF had to provide member states in need, with financial assistance under certain rules and conditions, especially those states facing balance-of-payments problems.

The IMF was first funded by a system of quotas divided among the member states. With the need for more liquidity due to the growth in world trade, the General Agreement to Borrow or G10 was created in order to provide more funds to the IMF. The General Agreement to Borrow [GAB] created also the Special Drawing Right [SDRs] “to serve as an international unit of account, exchangeable among central banks, to supplement each member’s reserve assets.”<sup>58</sup> It was from the meetings of the G10 states that the idea of creating a G7 summit meetings of the head of states, originated.

The other organization that was created to manage the Bretton Woods system was the World Bank. The World Bank, originally known as the International Bank for Reconstruction and Development [IBRD] had as its primary role the financing of the reconstruction of Europe after WWII. Then, from the 1960’s and on, it started playing an important developmental role towards developing and least developed countries. Loans are granted to countries in need but only under certain conditions that will guarantee a proper use of the loans, and will help correct market failures and imperfections. This was considered by some countries as interference in the domestic policies of the debtor states.

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57- Ibid, p222

58- Ibid, p226

The World Bank is different from any other bank in that “it accepts no deposits, has only governments as shareholders, lends to members that have limited access to capital markets, and limits its lending to the value of its equity and callable capital.”<sup>59</sup> It does not operate alone, and it is assisted in its work by the following affiliates: the International Finance Corporation [1956], the International Development Association [1960], the International Center for Settlement of Investment Disputes [1966], the Multilateral Investment Guarantee Agency [1988].

The developmental role that the World Bank is playing is not only limited to financial help in the form of loans. It also help developing states to improve the “policies, strategies, and institutions that help projects succeed.”<sup>60</sup>

After the collapse of the Bretton Woods system these two organizations faced also the threat of deadlock. The Group of Seven played an important role in keeping these organizations of the old system of stable exchange rates, alive and adapting them to the new system of floating exchange rates. This was done by working to increase the resources of the IMF: “we will seek early ratification of the increases in resources for the International Monetary Fund and the General Arrangements to Borrow”<sup>61</sup>. Second, by emphasizing the role of these organizations as important centers of information: “we encourage closer cooperation and timely sharing of information among countries and the international institutions, in particular between the IMF, the IBRD, and the GATT.”<sup>62</sup>

Strengthening the role of the IMF and the World Bank and increasing their resources were discussed in many summits, especially at the 1989, the 1991, and the 1996 summits. The

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59- Ibid, p294

60- Ibid, p 299

61- Communiqué of the 1983 Summit of Industrialized Nations, Williamsburg, May 28-31, 1983, p2

62- Ibid

commitment to a strong IMF was reiterated at the Lyon summit of 1996, “together with the international community as a whole, we undertake to ensure that the IMF has the resources needed to perform its tasks in the service of international monetary stability.”<sup>63</sup>

The need to strengthen the international financial organizations was especially stressed in the aftermath of the 1995 Mexico crisis. What needed to be done according to the G7 group was to make more effective the “advanced emergency system” of the IMF, and to supply this organization with more funds.<sup>64</sup> But strengthening the IMF and the World Bank was not enough to solve all the international monetary problems. Some other important issues had to be dealt with.

At first there was the issue of the depreciation of the US dollar vis a vis the currencies of the other G7 countries. Reaching a climax in the year 1978, this issue was mainly caused by a deficit in the American balance of payments and a surplus in the flow of dollars in the international markets. The 1978 G7 summit dealt with this problem as a primary concern. What needed to be done was to convince the United States to work on improving the deficit in its balance of payments and reducing the dollar flows in the capital markets. Reducing oil imports and increasing US exports could mainly do this. Another solution to this problem was the assistance from Western European countries and Japan. These states had to work on improving their economic growth to be able to receive more US goods from one side and to strengthen the value of their currencies in order to lower the investment pressure on the dollar

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63- Communiqué of the 1996 Lyon Summit, Making a Success of Globalization for the Benefit of All, Lyon, 28 June 1996, p4

64-“Kimat Halifax Kad Toukawi Jihaz al-Inzar al-Moubker al-Tabeh Li Soundouk al-Naqed al-Douwali” (Halifax Summit May Strengthen the Early Alarm System of the International Monetary Fund) Al-Hayat, June 15, 1995.

from another side.<sup>65</sup> What could be concluded was an agreement, whereby the United States would work on a program to reduce inflation and the consumption of energy, while the European states [sp. France and Germany] and Japan would work on a program of expansionary policies in order to be able to accept more imported goods from the USA.<sup>66</sup>

But this strategy did not prove effective, and it was followed few months later by the highest decline in dollar value. This led the US President to work on altering domestic economic policy for the sake of international monetary stability, something the US has rarely done. When President Reagan succeeded President Carter in 1981, he reverted to a policy of economic unilateralism. Although this new policy was able to deal with inflation and dollar devaluation but this was at the expense of the international monetary system.<sup>67</sup>

As the system began to recover in the mid 1980's, the Tokyo summit of 1986 insisted on the need for coordination of economic policies among the G7 countries. To this end, a G7 of finance ministers was formed to meet in the period between yearly G7 summits and to deal with the management of the international monetary system.<sup>68</sup> During these meetings, the finance ministers and central bank governors would first review the major international economic problems and the way they are affecting the international system. Second, they would work on finding the most suitable solutions to deal with these problems on the international level and through coordination of efforts among all member states. And finally, they would recommend for each member state the necessary reforms to be implemented in their domestic policies in order to help solve the international problems. So, states with

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65- "Moutamar al-Kimah al-Iktisadia Fi Bonn Hal Yanjah Fi Moualajat al-Dollar?" (Will the Economic Summit in Bonn Succeed in Resolving the Issue of the Dollar?). Al-Siyassi. June 22, 1978.

66- J. E. Spero, *opcit*, p56

67- *Ibid*

68- Communiqué of the Tokyo Summit of 1986, Tokyo Economic Declaration, Tokyo, May 6, 1986, pp2-3

budget surpluses had to work on reducing their surpluses [Japan, Germany], and states with budget deficit had to work on reducing their deficit [France, United States]. This economic policy coordination was designed to help in reaching a more balanced international growth. The result was a major progress in international monetary stability due to individual progress in domestic economic policies.<sup>69</sup>

The issue of instability in the international monetary system stopped being the primary concern of the G7 states in the late 1980's and early 1990's, to reemerge in 1995 after the Mexico crisis. A conclusion was reached on the need to strengthen the existing international monetary organizations at the 1995 summit, so that they would be able to deal with possible future crises.

In 1994 Mexico faced acute balance of payments problems because it was spending more money on buying goods than what it was getting through investments. So, in December 1994 and in order to "diminish the international purchasing power of its currency, Mexico abruptly let its peso float against the US dollar."<sup>70</sup> This led investors to pull out their money because "they realized that Mexico no longer had enough money to cover the value of its outstanding bonds."<sup>71</sup>

This crisis that had perturbed the international monetary system sent a warning to the industrialized states on the need to take action in order to avoid or at least quickly deal with another crisis. The issue of Mexico's crisis was extensively tackled during the G7 February 1995 meeting of finance ministers and central bank governors and during the G7 1995 summit meeting of Halifax-Canada that followed it. The main conclusion reached at the end

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69- For details, see the Statement of the G6 Finance Ministers and Central Bank Governors Meeting in Paris, February 22, 1987

70- Mary Janigan, Carl Mollins, Malcolm Gray, "The Ins and Outs of the G7 Summit", in Maclean's, June 19, 1995, v108, number 25, p33

71- Ibid

of this summit was the strengthening of the International Monetary Fund [IMF]. First, by increasing its funds in order to be able to help the states facing shortages in their monetary systems. This should be done through increasing the quotas of donor states, the number of donor states, and through developing financing mechanisms that will be able to respond quickly in case of crisis of financial emergencies.<sup>72</sup> Second, by improving “the early warning system” in order to be able to predict and be ready for any crisis. This necessitates the cooperation of each state with the IMF, by exchanging information about the financial situation of the state, the extent of its debt, and the position of its account balance [the flow of funds to the outside as related to the flow of funds to the inside].

Up till now, the G7 seems to be in control of the management of the international monetary system with the help of their finance ministers and central bank governors, in addition to the work of the IMF in guiding, stabilizing and providing help to the states in need. But if another crisis occur beyond the capacity of the IMF to deal with alone, will the G7 members accept to make changes in their domestic policies in order to stabilize the international monetary system?

In a realist interpretation, this can hardly be perceived because states would act primarily according to their own national interests. And if a shift in their policy will not be in first place advantageous to their own country, they will not be highly encouraged to implement it.

The liberal interpretation stressed on the issue of interdependence among states, in a way that any problem in the international system will affect the stability of the domestic system. This will make states ready to make changes in their domestic policies in order to help stabilize the international system, because this in turn will reflect on their internal stability and prosperity.

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72- Communiqué of Halifax Summit of 1995, Halifax, June 15-17, 1995, pp3-4

The issue of managing the international monetary system, complicated as it is, seems to be easier to handle compared to other international economic issues. In the following part, I will be dealing with the issue of trade and the problems facing the international community related to this issue and how the G7 summit was able to deal with it.

## **2- Liberalization of trade**

The necessity for the liberalization of trade emerged when states realized that protectionist attitudes and discriminatory measures in trade have been partly the cause behind the 1930's economic depression. The solution was the creation of the GATT [General Agreement on Tariffs and Trade] in 1947. GATT sought "to reduce protectionism and eliminate discrimination between different sources of supply"<sup>73</sup>. This would guarantee the pursuit of free trade with the adherence of member states to the principle of the most-favored-nation. According to this principle, "any advantage, favor, privilege or immunity granted by any contracting party to any product originating or destined for any other country shall be accorded immediately and unconditionally to the like product originated in or destined for the territories of all other contracting parties."<sup>74</sup> Another step to guarantee free trade was the elimination of nontariff barriers [NTBs], which are domestic laws and regulations that are discriminatory against imports [national standards, customs procedures, health and sanitary regulation and others]. These procedures are more difficult to control than other forms of protectionism such as tariffs and quotas.

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73- Phedon Nicolaides, "The Changing GATT System and the Uruguay Round Negotiations" in Richard Stubbs and Geoffrey R. D. Underhill [Eds], Political Economy and the Changing Global Order, Toronto, 1994, p230

74- J. E. Spero, *opcit*, p 70

First, because they are not as transparent and differ from one state to another. Second, because they have developed some complicated tools for their implementation such as the voluntary export restraints or VERs which are “self imposed export restrictions negotiated bilaterally.”<sup>75</sup>

The success of the GATT in its first decades [1947-1967] in liberalizing trade could not be continued afterwards because of the rise of protectionism.

The rise of protectionism in the 1970's could be referred back to the same reasons which led to the changes in the international monetary system in that period. One of these reasons was the oil embargo of the 1970's and the subsequent change in the monetary system from stable exchange rates to floating exchange rates. This system of floating rates made it difficult for states to calculate the impact of agreements on their trade and payments. So the states had to put protectionist measures in order to be on the safe side in case of any imbalances in the international economic system. Another factor contributing to the reversion to protectionism was the growth of the trade sector, and the involvement of more human and physical capital that led to increased interdependence. With a larger number of trading partners to deal with, a change in competitiveness took place. States had to put more protectionist measures in order to protect their trade from growing international competition. But these protectionist measures were different from the ones adopted before. Tariffs and quotas were replaced by a system of nontariff barriers and voluntary restraint agreement [VRAs].<sup>76</sup>

Although stressing on the stability of the international monetary system as a priority, the G7 summit meetings had to deal also with the liberalization of trade and the elimination of

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75- Jeffrey A. Frieden, *opcit*, p 365

76- J. E. Spero, *opcit*, pp 85-8

protectionism. This issue emphasized especially in the early 1980's after the Tokyo Round of Multilateral Trade Negotiations did not prove to be as successful as it was intended to be. This seventh round of GATT negotiations which begun in 1973, and was completed in 1979, tackled more trade issues and tried to solve additional problems than the reduction of tariff barriers and the implementation of the GATT goals and rules, such as nontariff barriers, safeguards and agriculture. But whereas it did succeed in reducing tariffs and regulating nontariff barriers, it failed to regulate safeguards and to liberalize trade in agriculture.<sup>77</sup>

The weakness of the international trade regime that became more revealed after the 1982 GATT ministerial meeting which failed to make any progress regarding the issues and problems they had to deal with, made it clear for the G7 countries the necessity for initiating another round of GATT negotiations.

In their 1981 summit meeting, the G7 leaders have agreed on the necessity of a GATT ministerial meeting in 1982. But with no success achieved they began working on the preparation of another negotiating round. They declared this agreement during their 1983 summit meeting, "we have agreed to continue consultations on proposals for a new negotiating round in the GATT."<sup>78</sup> They stressed their commitment for the achievement of this round during their summit meeting of 1986, "we are fully committed to the preparatory process in the GATT with a view to the early launching of the new round of multilateral trade negotiations. We shall work at the September ministerial meeting to make decisive progress in this direction."<sup>79</sup> This commitment was reached after they were able to get over their opposed views as to the date of the beginning of this round. During the 1985 summit meeting the French President Francois Mitterand and Italian Prime Minister Bettino Craxi were

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77- J. E. Spero, *opcit*, p92

78- Communiqué of 1983 Summit, p2

79- Communiqué of 1986 Summit, p5

opposed to begin the round in early 1986, while other leaders and especially the United States President, Ronald Reagan insisted on this date. The French and Italian leaders thought that such a round needed more preparation and had to go in parallel with the reform of the monetary system. While the US President wanted to fix this early date in order to be able to put pressure on the protectionist lobbies in Congress.<sup>80</sup>

A compromise was made as to the date of the beginning of the eighth round of negotiations which started in early 1987 after it was launched in September 1986 during a special session of the GATT at Punta del Este in Uruguay. The Punta del Este declaration established fifteen groups to deal with four main issues: tariffs and nontariff barriers; the concerns of developing countries such as, natural resource-based products and textiles; reform of GATT rules; in addition to nontraditional areas to the scope of the GATT.<sup>81</sup> Although these negotiations were not completed at the expected date [late 1990], three years later in December 1993, the Uruguay Round proved to be a great success.

The G7 countries kept supporting the conclusion of the Uruguay round eventhough they failed to conclude it by the end of 1990 as they have committed themselves during the 1989 summit meeting, “we express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990”.<sup>82</sup> This support was shown in their 1990 summit meeting communiqué in which it was declared that “the successful outcome of the Uruguay Round has the highest priority on the international economic agenda”.<sup>83</sup> And it was emphasized in the 1991 summit meeting which insisted that “no issue

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80- Axel Krause, “Bonn Summit Seeks Compromise on Trade”, in Herald Tribune, issue of May 5, 1985

81- J. E. Spero, *opcit*, pp94-95

See also, Phedon Nicolaides, *opcit*, p238, table 1

82- Communiqué of the 1989, Summit of the Arch: 14-16 July 1989, Paris, 1989, p7

83- Communiqué of the 1990, Houston Economic Declaration: July 11, 1990, Houston, 1990, p4

has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round.”<sup>84</sup>

The success of this round was seen by its ability in resolving the issue of trade in agricultural products, by achieving progress on issues that knew confrontations between the North and the South states, and by the establishment of the World Trade Organization [WTO] which would take over the responsibilities of the GATT.

The first major success of the Uruguay Round was its ability to achieve a great reduction in tariffs and a reduction or an elimination of many nontariff barriers [average tariffs in industrial countries will be reduced to about 4%]. The agreement on trade in services will establish new rules in more than 150 service sectors and subsectors. While the agreement on agriculture demand a reduction by all members on aggregate support to their domestic agricultural sectors by 20% from a 1986-88 base period.<sup>85</sup>

The second success is related to the broadening of the GATT’s jurisdiction in a way that rules on new issues were implemented which make these issues inside the GATT’s authority. Among these new controversial issues we have: agriculture, textiles, safeguards, subsidies, trade-related intellectual property rights, trade-related investment measures, services.<sup>86</sup>

The establishment of the WTO was considered as the third success. The WTO replaced the provisional treaty by which the GATT was created, with a permanent trade organization. In order to become a member of the WTO a state had to accept and ratify the Final Act of the

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84- Communiqué of the 1991, London Economic Summit 1991: Building World Partnership, 15-17 July London, 1991, p2

85- Fact Sheet: Benefits of the Uruguay Round, in US Department of State Dispatch, July 1994, v5 nsupp-6, p16(2)

86- Phedon Nicolaides, *opcit*, pp237-243

Uruguay Round. Once member of the WTO a state would enjoy the same privileges and would be subject to the same rules of governance and procedure as any other member state.

The WTO will have some advantages for enforcing the global rules for international trade, which resulted out of the Uruguay Round. First, it will provide member states with a forum for discussion and information sharing. This will broaden the scope of its negotiations to include almost every area of conflict in trade between member states. Second, considered and structured as a trade organization the WTO will be able to cooperate with other monetary international organizations [IMF and World Bank] in order to work on a common global economic policymaking. Third, the WTO will be able to add laws and provide clarifications when necessary.<sup>87</sup> All these advantages will make the WTO much more superior and influential than the GATT.

The G7 summits that supported the Uruguay negotiations all the way declared the importance of the conclusion of these negotiations and the creation of the WTO. This was stated in the 1994 summit by declaring that “the signing of the Uruguay Round Agreements and the creation of the WTO are important milestones in postwar trade liberalization”.<sup>88</sup> The other important declaration of the Naples summit was the commitment of the member states to ratify the Uruguay Round Agreement, “we are determined to ratify the Uruguay Round Agreements and to establish the WTO by January 1<sup>st</sup>, 1995 and call on other countries to do the same.”<sup>89</sup>

All through the summits of 1995 and 1996, the G7 countries stressed on the necessity to abide by the conclusions of the Uruguay Round and on the importance that should be given to

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87- John G. Conklin, “From GATT to the World Trade Organization: Prospect for a Rule Integrity Regime” in C. Roe Goddard, *opcit*, pp394-395

88- Communiqué of the 1994 Summit, Naples Communiqué of 1994, Naples, July 8-10, 1994, p3

89- *Ibid*

the role of the WTO. In the 1995 summit they stated that “we will implement the Uruguay Round Agreements fully, and reaffirm our commitment to resist protectionism in all its forms...we endorse closer cooperation between the WTO and other international economic institutions.”<sup>90</sup> The commitment to the WTO was reiterated at the 1996 summit: “we reaffirm the central role of the WTO and the preeminence of multilateral rules.”<sup>91</sup>

The G7 played the same role in trade liberalization as the one it played in the management of the international monetary system, namely the role of initiator, guardian and mobilizer. Because its forum is restricted to only seven states, with no binding authority even on these member states, other global forums had to be resorted to in order to implement what was agreed upon at the G7 summits. These forums were the IMF and the World Bank as related to the international monetary system, and the GATT and the WTO as related to the international trade system. These organizations were used as tools for the implementation of the goals and interests of these highly industrialized states. So the G7 states were always supporting the improvement of the capacities and the strengthening of the role of these organizations. This was mainly because they have realized that they can no more control the international system by their military power and economic capacities alone. First because there is no more one or two superpowers playing the role of hegemons in the military and economic spheres. Even the United States is no more willing or able to bear the consequences of being the only economic and military hegemon. Second, because the proliferation of military power [ the possession of nuclear weapons by states like India, Pakistan and Israel] and the emergence of

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90- Communiqué of the 1995 Summit, Halifax Summit Communiqué: June 15-17, Halifax, 1995, p9

91- Communiqué of the 1996 Summit, Lyon Summit Economic Communiqué: Making a Success of Globalization for the Benefit of All, Lyon, 28 June 1996, p6

new economic powers [the European Union, Japan and the Newly Industrialized States], in addition to the greater interdependence in the international system, necessitated greater cooperation among all states from different regions, size and strength .

Here the realist theory will fail to give an interpretation for this attitude of getting away from the direct pursue of power and of giving less priority to the achievement of a state's national interests. This theory will not approve this method of international cooperation for the sake of achieving growth and preserving the state's power in the international system.

While the liberal theory will give the right interpretation for this shift in states behavior by stating the inevitable necessity of international cooperation among states due to the highly interdependence of political economic and financial issues of the international system. A state can not survive in isolation even powerful as it is because no state can be self-sufficient in any area. The liberal theory will also be able to explain the greater importance given to the international organizations because this theory considers these organizations as important actors in the international scene in addition to states and multinational corporations [MNCs]. So, according to the liberal theory, the G7 states are acting in the most suitable way to deal with greater interdependence of the international system and that is by giving international organizations the role of important actors that can make a difference in the domain of their work.

### **3-The Problem of Unemployment**

The issue of unemployment is one of the toughest problems that had faced the G7 countries. Although related to the international monetary system and to the international trade

system, still an improvement in these systems does not necessarily solve the problem of unemployment.

An open non-protectionist international trade system will be a great incentive in increasing global growth, which in turn will have a positive effect on the international monetary system. A stable international monetary system along with an improved global growth will help providing more jobs opportunities which will decrease unemployment. Still the problem of unemployment is not only related to growth, it has for its main causes the new technological developments and the lack of adequate training for people to be able to work in the advanced fields that were created. Unemployment is an issue that has always existed and in almost every country. But it became a major problem in the last three decades and especially in the 1990's.

In order to be able to understand this problem, we must look at the reasons that were behind it. First, we had already mentioned the technological developments. This is the core of the problem where in a way and due to these developments, the human being was replaced by the machine in certain fields of work. And from another way work has become more sophisticated for the human being to be able to accomplish it without appropriate training.

Here, we have reached our second problem, which is training. Appropriate training can not be done without some expenses to be paid, and this, not all states are willing or able to do. This will lead us to our third problem: less inflation and more growth in a state will make it more able to provide adequate training and offer more jobs opportunities to its citizens. But sometimes states policies are indirectly behind the increase of unemployment. One issue is the transfer of production to the Third World countries where labor is cheaper, which would take job opportunities away from the citizens of the industrialized countries. Another issue is

the economic competition among industrialized countries, which is leading to lowering the social security services for workers in order to decrease the expenses of production.<sup>92</sup>

The combined weight of all these problems will make the issue of dealing with the unemployment problem a very difficult one, especially that this problem differs in reasons and proportions from one state to another. Although the number of unemployed persons had reached in the mid of the 1990's around 30 million people in the G7 countries alone, still the rate of unemployment differs from one state to the another. With Japan having the lowest unemployment rates [2.8% in 1994], and Canada having one of the highest unemployment rates [11% in 1994] next to Italy and France.<sup>93</sup> The reason behind these differences in unemployment rates is mainly due to the differences in the economic situations and economic policies of each state.

Although Germany and Japan are known to have the highest trade surpluses among the G7 states, still Japan has a much lower unemployment rate than Germany. And although Japan and the United States spend less than the other G7 states on job training but they have the lowest unemployment rates among them. The United States having a service-based economy can offer new jobs with low-skill, low-wage positions. While Japan's low unemployment is partly due to the tradition of its companies in providing lifetime employment guarantees.<sup>94</sup>

Every state was trying individually to solve the problem of unemployment in its country, either by providing jobs training, or by encouraging consumers to spend more by modifying tax cuts, or through sustaining more growth of their real GDP by lowering their interest rates and creating non-inflationary policies. But with no real improvements being reached and

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92- Al-Khawand, Massoud. Al-Mawsouha al-Tarikhiya al-Joghrafia (The Historical Geographical Encyclopedia). Vol. 3, p344

93- Anthony Wilson Smith, "The Motown Summit: G7 Ministers Gathering in Detroit Make Little Progress in a Strategy to Reduce Unemployment.", in Maclean's, March 28, 1994, v107, n13, p46(1)

94- Ibid

realizing that this problem was badly influencing every state's economy and consequently the international economic system, the G7 countries decided to try to find coordinated steps in order to reach a global solution.

In the mid 1980's the G7 countries began to look seriously at the problem of unemployment. They considered in the beginning that the most important mechanisms to reduce unemployment was through non-inflationary growth and policies encouraging job creation.<sup>95</sup> But with the problem unresolved and getting more complicated in the 1990's, the G7 states had to consider other steps to be taken and other solutions to be found. In 1993 the G7 summit endorsed the report of the finance ministers which stressed on changes to be done in order to improve employment and growth. Among these changes we have: the increase of labor market efficiency, the improvement of training and education, the improvement of the international trade system, the enhancement of financial markets efficiency, and the development of global cooperation on the environment.<sup>96</sup>

In addition to this growth strategy, this summit did also approve the need for a special summit meeting to deal with the issue of unemployment. This meeting was scheduled for March 14<sup>th</sup>, 1994, in Detroit. The leaders of the seven highest industrialized states, with their ministers of finance, labor, commerce, and economics, could not achieve more during this Detroit meeting than an acknowledgment of the gravity of this problem and the need to cooperate and join their efforts in order to find solutions. Although cooperation is important for solving the unemployment problem, like working for the improvement of global growth

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95- Communiqué of the 1986 Summit, p2

96- Communiqué of the 1993 Summit, Tokyo Summit Economic Declaration: A Strengthened Commitment to Jobs and Growth, Tokyo, July 9, 1993, p2

and forming trade partnerships [NAFTA, GATT], still individual states efforts to deal with this problem are very important.

In the view of the United States, its contribution to solving the unemployment problem was to consist of a reduction of its trade deficit [\$500 billion] and the encouragement of private capital investment. Japan, on the other hand, sought to increase domestic demand, while European countries agreed to lower their interest rates. All these efforts aimed at stimulating global growth as the most suitable solution for improving employment picture. The conclusion that was reached at the end of this meeting was that no single state can expand its employment capacities unless there is global economic growth. The main problems that were discussed during this meeting were three :

First, how to improve the education and training systems in those countries in order to prepare the working-age population for high paying jobs that require high skills. Second, how to convince people that productivity is beneficial to them and would not lead to fewer people at work. Third, how to offer people the security they need, without affecting the dynamism of market economies. Other issues that were dealt with during this summit meeting, were: the reason why unemployment was still high in places where the economy was growing; the way to find the best strategy to cooperate on monetary and fiscal policy; and the way to build a social safety net that will make people and economies advance.<sup>97</sup>

All what could be done during this summit was an exchange of views and ideas to solve the unemployment problem. The conclusion that unemployment was unacceptably high and that cooperation was needed to find solutions was faced with the reality that every state had to make individual efforts to solve this problem.

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97- "Remarks at the Group of Seven Jobs Conference in Detroit", in Weekly Compilation of Presidential Documents, March 21, 1994, v30 n11 p508(9)

With the existence of different economic conditions and policies in each country, the achievement of solutions to common problems had to mainly rest on national initiatives. The Detroit meeting was not a waste of time though. It did help identify the actions that needed to be taken in the future. These actions are mainly, the work for growth and stability at the global level and the work for better reforms in the states' policies at a domestic level. The main reforms to be done are the following: increase investment in the people, reduce labor rigidities, pursue active labor market policies, promote innovation and the spread of new technologies, pursue opportunities to promote job creation in new areas, and promote competition.<sup>98</sup> These reforms were stressed upon during the subsequent summit meetings especially the 1995 and 1996 meetings. This issue will continue to be a priority for discussions until it will be at least partially solved.

The problem of unemployment is not an issue related to the developed states only, but the fact that these highly industrialized states are not able to solve this problem which is very severe in their countries makes it questionable whether this problem can be solved in the developing world. This issue is the one in which least progress was achieved all through the 24 meetings of the G7 summits. This can be referred to the fact that this problem is the one that needs most changes in domestic policies which states are reluctant to make.

## **Conclusion**

The G7 emerged mainly as a response to growing economic interdependence among its member states. This explains the priority given by this group, especially in its early years, to economic issues. The attention given to economic issues was not motivated by the national

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98- Communiqué of the 1994 Summit, pp2-3

and security interests of the G7 states. It was rather the acknowledgment of the importance of these issues and their consequences for these states, given the growing economic interdependence. The afore mentioned analysis revealed that the liberal theory does better job than the realist theory in explaining the emergence and continued usefulness of the G7 for its member states.

Evaluating the record of the G7 summits on economic issues, it can be said that, it was easier for the G7 states to affect global economic conditions through influencing the work of relevant international bodies, than to change domestic policies. That is why the G7 summits knew some success in the stabilization of the international monetary system and in the liberalization of trade, and were faced with failure when it came to solving the unemployment problem.

The economic issues dealt with by the G7 states were more complicated than the political issues that we are going to read about in chapter six, because they needed a longer period of time to be solved, and they were directly affecting the economies of all the G7 states. This chapter had reviewed the work of the G7 in the economic domain; the next chapter will investigate the work done by the G7 in the political realm.

## **Chapter six**

### **Political Issues**

This chapter will present the other issues that were of importance to the G7 states, namely the political issues. The political issues differ from the economic issues in that they were not originally of primary concern to the G7 states, and they did not always directly affect them. They began to be dealt with at the end of the first cycle [early 1980's], they were sometimes of temporary importance, and it was not always vital to find solutions for them.

When the G7 states first began to meet in the mid 1970's, their primary concern was the stabilization of the international monetary system, the liberalization of trade, and solving the problem of unemployment. It wasn't until the early 1980's that other issues gained importance for them and started appearing on their summit agendas.

The main political issues that they have dealt with were: international terrorism, arms control, the Middle East conflict, the Bosnian crisis, the consequences of the collapse of the Soviet Union, and the protection of the environment. Some of these issues were dealt with thoroughly, while other issues received only declarations of either support or condemnation.

#### **1- International Terrorism**

Terrorism was put on the agenda of the G7 summits after the 1979 attack on the American embassy in Tehran. This attack was followed by the bombing of US embassies in Kuwait, Lebanon and Rome. The United States, which had already begun its anti-terrorism rhetoric,

found in the G7 summits a suitable forum for pursuing its anti-terrorism policy. In the summit of 1981 a declaration on the condemnation of international terrorism was issued. And in the summit of 1984, the G7 states announced their “commitment to consult and cooperate in expelling or excluding known terrorists from their countries.”<sup>99</sup>

Although the United States was not the only state suffering from terrorist acts, but it was the most targeted. What made this issue more important for it was the shift in the nature of terrorism. Since the beginning of the 1980’s state terrorism was widely practiced. What differentiated it from nonstate terrorism is that the latter is practiced by national liberation groups, revolutionary groups, and ethnic or religious groups. While state terrorism was considered as a war by proxy, conducted by states supporting some terrorist groups that will wage this war on their behalf. The United States considered Syria, Iran and Libya as such states.<sup>100</sup>

Following a terrorist attack on a Berlin nightclub frequented by American soldiers that Libya was accused to be behind, the United States reiterated at the summit of 1986 its position on fighting international terrorism. In the 1986 summit the member states agreed on denouncing international terrorism, and on considering Libya as a key target in their fight against terrorism.<sup>101</sup> The issue of terrorism was put another time on the agenda of the G7 summits, in 1989. Following many attacks on airplanes, the latest being on the Pan Am flight 103 in December 1988, the G7 states declared their “continued strong condemnation of

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99- Fact Sheet: Economic Summits, 1981-1994, in US Department of State Dispatch, July 1994, v5 nsupp-6, p10(6)

100- John Spanier, Games Nations Play, Washington D.C., 1996, pp552-553

101- Fact Sheet: Economic Summits 1981-1994

international terrorism by states, including hostage taking and attacks against international civil aviation.”<sup>102</sup>

These declarations of the G7 summits were not the only acts of retaliation against terrorism. The United States did use the support of the G7 member states when it decided in 1992 to act through the UN Security Council in order to put sanctions against a terrorist state. This was the case of Libya who refused to surrender two of its agents accused of blowing the Pan Am 103 plane. With the existence of three G7 members as Security Council permanent members [the United States, Britain and France], it was not difficult for the US to convince Britain and France to support its decision to act through the Security Council against Libya. This was an example of a case where what could be agreed upon by leaders in the G7 forum was transferred to be acted upon in the UN Security Council.

The issue of fighting international terrorism kept being a concern of the G7 states in the years that followed. It was strongly reaffirmed in the year 1993 after the first terrorist attack inside the United States [the explosion of the World Trade Center in New York].

The issue of international terrorism could not be directly dealt with in the G7 summit meetings. But as we have seen, the G7 states and especially the United States did use these summits as a way to get support for its rhetoric against international terrorism and when necessary, for its actions through international organizations [especially the United Nations].

The concern of the G7 summits for the issue of international terrorism, which is an issue of security interest for these states, will give credit to the realist theory interpretation of these meetings. The realist theory considers that states are always seeking for power, by preserving their national and security interests. This is the main objective of their foreign policy, and summit diplomacy could be one tool for its implementation. But their emphasis on the state

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102- Ibid

being the only actor of the international system could not prove to be valid in this case. Because even these highly industrialized states needed the help of other nonstate actors, namely an international organization [the United Nations], in order to fulfill one of their security interests, that of fighting international terrorism.

## **2- Arms Control**

The issue of arms control related mainly to the limitation and the elimination of some nuclear weapons, especially between the United States and the Soviet Union. Arms control negotiations begun in the 1960s and they resulted with the first important treaty, the SALT I [Strategic Arms Limitations Talks]. It was followed by SALT II, START I and START II [Strategic Arms Reduction Talks]. These treaties were between the United States and the Soviet Union, but another important treaty was signed between all nuclear and non-nuclear states, namely, the Non Proliferation Treaty, first signed between the United States, the Soviet Union, and Britain in July 1968.

The concern of dealing with the arms control issue is mainly due to the existence of three nuclear states within the G7 summit [the United States, Britain, and France]. This concern was explicitly declared in the summit of 1983, which insisted on achieving “lower levels of arms through serious arms control negotiations with the Soviet Union”.<sup>103</sup> The issue of arms control was put another time on the agenda of the G7 summit in 1985. This time the declaration was supportive of the United States position in the negotiations, it stated that the G7 supported “the US position in the arms control talks with the Soviet Union, which was

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103- Fact Sheet: Economic Summits 1981-1994

urged to act positively and constructively to reach agreement.”<sup>104</sup> During this meeting, the United States did use the G7 summit in order to put pressure on the Soviet Union, which was causing a deadlock in the negotiations of the START treaty. With the presence of the United States during the 1985 meeting and the absence of the Soviet Union [not yet a member in the G7], the US was able to gain support for its position as the good one.

The United States used the G7 forum twice again as related to the NPT treaty. The first time was when it was trying to convince the ex-Soviet Union states and especially Belarus, Kazakhstan, and Ukraine, to adhere to the NPT and to sign the START treaties. Working within the G7 on helping these states ameliorate their economic position was a kind of compensation for giving up their nuclear weapons. This was a success, because these states did sign the START and NPT treaties between 1992 and 1994. The second time the G7 forum was used as a support for the nuclear states, was during the summit meeting of 1994 when member states declared their “unequivocal support for an indefinite extension of the nuclear Non-Proliferation Treaty in 1995”.<sup>105</sup> The US mainly supported this position, while other non-nuclear states wanted an extension for a definite period of time in order to be able to ameliorate their position in the treaty. But another time the success was for the industrialized states when the treaty was indefinitely extended in the 1995 session.

The role of the G7 summit in dealing with the arms control issue was a role of support for nuclear states’ positions, and a role of a bargaining forum [through the G7 finance ministers meetings with the ministers of the ex-Soviet Union states] to push states to adhere to the arms limitation and reduction treaties.

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104- Ibid

105- Ibid

This concern for the arms control issue showed another time the validity of the realist interpretation of the goals of summit meetings, because arms control is a security issue. But the Group of Seven consists only of three nuclear states [the United States, Britain and France], so why are other states interested in this issue? From one side it could be that the dangers of not dealing with the limitations and elimination of nuclear weapons could have a bad consequence on all states [nuclear and non-nuclear]. From another side, the influence of the United States could be behind the support of the other G7 members for the US position in this issue. Still, we can not neglect at all the possibility of the need for cooperation among these states for dealing with such important issues, the way they did for other political and economic issues. So, a liberal interpretation could not be totally refuted in this case.

### **3- Conflict in the Middle East**

The conflict in the Middle East dated back to the direct post WWII period and especially after the establishment of the Israeli State. The conflict was not only between Israel and the Arab states, but it did occur sometimes among the Arab states [the latest conflict being the one between Iraq and Kuwait]. Although Egypt, Jordan and the PLO [on behalf of the Palestinian people], did sign peace treaties with Israel, the continued occupation of South Lebanon, the Golan Heights and the incomplete adherence to the principles of the Oslo treaty with the Palestinians, complicated the quest for a comprehensive peace in the Middle East.

The G7 states were concerned about solving the conflict in the Middle East because all of them had either direct interests [economical, military], or indirect interests through their allies in the region. During the 1980s the involvement of the G7 states in the Middle East conflict was very minimal. In the 1981 summit they declared their disapproval of the escalation of

tension and the continuing acts of violence in the Middle East. In the 1982 summit and after the Israeli invasion of Lebanon, they called all parties in Lebanon to stop violence immediately. And in the 1984 summit they declared their hope for a peaceful and just settlement to the Iran-Iraq conflict.<sup>106</sup>

During the first half of the 1990s the G7 summits stressed on showing the Arab states as the party who is causing deadlock to the peace process. The declarations of the 1993 and 1994 summits that mainly asked the Arab States to lift their boycott against Israel showed this. No condemnation whatsoever of Israeli acts against Lebanon and the Palestinian people. But a shift in attitude occurred with the beginning of the fourth cycle of summit meetings, namely the years 1996 through 1998. This was due to three main reasons.

The first reason was the change in the French attitude with its new President Jacques Chirac. Chirac tried to balance the extremist US support of Israel by showing his support to the Arab States [especially Lebanon and Syria] and by denouncing for the first time, in a G7 summit, the Israeli attack against Lebanon in April 1996. The French President insisted on raising the issue of the 1996 attack although it was not put on the agenda of the 1996 summit. This was the first time that Israeli actions were criticized at the G7 summit. All previous summits had just asked the Arab States to be more forthcoming in the peace process. President Chirac made another change when he declared at the end of the 1998 G7 summit that “friendly pressures” must be put on the Israeli Prime Minister in order to convince him of the necessity to agree with the suggestions given to break the deadlock of the peace process.<sup>107</sup>

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106- Ibid

107- “Kimat Burmingham Toudeen al-Tajaroub al-Nawawiya Wa La Touakeb al-Hind” (The Summit of Burmingham Condemns the Nuclear Experiments and Doesn’t Punish India). *Al-Safir*. May 18, 1998.

The second reason for the change in attitude of the G7 towards the conflict of the Middle East was the negative attitude of the Israeli state towards the peace process. This attitude was revealed by the 1996 attack on Lebanon, which caused a large number of civilian casualties, especially the Qana massacre. Israel's intransigence was further revealed through its noncompliance with the principles of the Oslo Agreement with the Palestinian self-governing authority. This made the case of the United States in supporting Israel weaker and especially after the latter refused to comply with the ideas of the US as related to breaking the deadlock in the peace process. While in this case, the Arab States looked, contrary to what they were shown to be, as the ones helping in breaking the deadlock, with the Palestinian prospective agreement with the US ideas.

This will lead us to the third reason, which is the acknowledgment by the United States of its inability to deal alone with this issue, especially after the refusal of Israel, later on, to comply by its ideas and proposals. During the 1997 G7 summit meeting, all member states were worried about the continued deadlock in the Middle East peace process where they indirectly blamed the US for this situation and they realized the necessity of a greater European involvement [especially France and Russia] in order to solve this issue.<sup>108</sup> The Middle East issue was no more a case of a region facing a conflict, but it had become lately a much more direct concern of the whole world because of growing interdependent interests and concerns. This was explicitly shown in the last two G7 summits which discussions stressed mainly on how to solve this conflict.

The issue of the Middle East conflict and the concern given for it by the G7 states in their summits puts us another time in a situation of questioning the validity of the realist

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108- Dargham, Raghida. "Kimat al-Samani: Kalak Ala al-Sharq al-Awsat" (The G8 Summit: Worries About the Middle East). *Al-Hayat*. June 22, 1997.

interpretation or the liberal interpretation. The G7 states are concerned about the Middle East issue because most of them have interests in the region [Allies and oil for the United States, cultural and economical importance for France and Britain, trade for Japan and Germany]. So, according to the realist interpretation, the G7 states want to solve the Middle East conflict in order to preserve their interests. But these are not only security interests, and the G7 states are not getting into a battle of power preservation as related to this issue. They are rather trying to coordinate their efforts in order to find the most suitable solution for this conflict, because as they have acknowledged lately, no one state is able by itself to deal with such a conflictual issue, and cooperation is strongly needed in this case. So the liberal interpretation that presented cooperation as the ultimate goal of these meetings is also true in this case.

#### **4-The Crisis in Bosnia**

As a result of the collapse of the Soviet Union and its influence on Yugoslavia, a crisis erupted between the Serbs and the Bosnians in Bosnia-Herzegovina, because the Bosnians were trying to achieve their independence from Yugoslavia. This conflict which was due to the existence of different ethnic groups that were forced to cohabitate under the ex-communist regime, escalated into a major crisis. First because of the number of casualties and the bad economic situation that took place, and second, because of the geographical location of Yugoslavia in the European continent.

The European States considered the resolution of this crisis a priority and were ready to interfere in whatever possible way to reach a positive result. That's why this issue was put on the agenda of the G7 summits to show its importance and gain the necessary support for resolving it.

During the 1992 and 1993 summits, the European states did accomplish two successes. First, they declared their support, in the summit of 1992, for the “enforcement of UN Security Council sanctions against Serbia-Montenegro, including the use of military force if necessary.”<sup>109</sup> This was another case where the G7 support of an issue is referred back to the Security Council to be implemented. The other success was their ability to convince the United States to take part in solving this issue through its participation in the necessary steps to be taken. This was not easy to accomplish because the United States in the first place considered this issue as a pure European one. From another side, President Clinton [as a part of his election campaign, and after the internal revolt against the US interference in the Gulf region] had promised his citizens to limit the US interference in the outside and to concentrate on solving their internal problems.<sup>110</sup> But in the summit of 1993 the G7 states reached an agreement on declaring their “commitment to assist in the implementation of UN Security Council resolution 836 establishing safe havens”.<sup>111</sup>

The concern for solving the crisis in Bosnia stayed on the agenda of the G7 states until a final agreement was reached in 1996 ending the conflict and joining back all the ethnic groups under the Yugoslavian State, divided in a kind of federal states, each having autonomy within its territory. This solution proved satisfactory to the European states that wanted to see a return of stability to the European continent. The importance of this stability was mainly due to the European states’ efforts to work for a unified Europe. And with more than the half of the members of the G7 [G8 with Russia] being Europeans, this stability was also a major concern for them.

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109- Fact Sheet: Economic Summits 1981-1994

110- Al-Khawand, Massoud, *opcit*, pp338-339

111- Fact Sheet: Economic Summits 1981-1994

The Bosnian crisis formed a threat to European stability and plans for unity. Although considered as a security interest, this issue was of interest to the European states as a Union not only as single states. The European Union existence and participation in the political and economic systems, weakens the idea of the state as the only actor in the international system. From another side, the participation of the United States in solving a crisis not of direct security interest to it, makes the realist interpretation very weak in this case. This case gives credit to the liberal interpretations of summit meetings as a way to cooperate on dealing with important issues and trying to find solutions for critical problems.

## **5-Russia and the ex-Soviet Union States**

Before the collapse of the Soviet Union, the attitude of the G7 summit towards this country was not the friendliest one. Beginning with their 1981 declaration on the condemnation of the continuing Soviet occupation of Afghanistan. It was followed by their supportive attitude to the American position in the arms control negotiations, while blaming the Soviet Union for causing the deadlock [START negotiations, 1985].

This attitude began to change with President Gorbachev new policy of reform [Perestroika and Glasnost]. In their summit of 1988, they declared their willingness to continue the dialogue and cooperation between East and West, "in the light of greater freedom and openness in the Soviet Union."<sup>112</sup> An amelioration of attitude took place in the London 1991 G7 summit, where President Gorbachev was invited to meet with leaders of the seven states at the end of the summit in order to discuss the economic situation in the Soviet Union.

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112- Fact Sheet: Economic Summits, 1981-1994

But the real positive attitude towards Russia took place only after the collapse of the Soviet Union in 1992. From that year on, one major concern of the G7 summits was how to deal with problems in Russia and the other ex-Soviet Union Republics. Because with the end of the bipolar system, the cold war had ended and the predecessor states of the Soviet Union could no more form a great danger to the Western States. But for more safety, the Western States, and through the G7 summits, were trying to help the former Soviet Republics to abandon the Communist system. This was done by trying to help them revert into democratic systems and by helping them find appropriate solutions to strengthen their economies in order not to be vulnerable to internal revolutions that may disrupt this whole system. In the summit of 1992 President Boris Yeltsin attended informally the closing session of the summit in order to discuss the reform efforts in his country. The informal cooperation of the Russian leader with the G7 leaders continued during the summit of 1993, where the participants declared their support for “Russian reform efforts under President Yeltsin and for the reform process in Ukraine.”<sup>113</sup> President Yeltsin attended this summit during its last day, in which he participated in the meetings with G7 leaders. The Naples summit of 1994 knew another progress in the cooperation of Russia and the G7 states with participation of President Yeltsin in all the political discussions. Russia’s participation continued at this level until 1997 when President Yeltsin participated fully in all the summit discussions. In 1997 the summit meeting of these Eight highest industrialized states was still referred to as the summit of the G7 and Russia. Although not formally declared, but that year, the G7 had changed into a G8.

The support of the G7 to the states of the ex-Soviet Union and especially Russia was not only through accepting the presence of the Russian leader at their summit. All through the 1992 till the 1994 summits the G7 was trying to find ways to help Russia in its political and

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113- Ibid

economic reforms. This help was declared to be “based on the principles of help for self-help and partnership”.<sup>114</sup> At the financial level, this help took the form of initiating a program of loans for Russia in the IMF and the World Bank, and by encouraging the adherence of the ex-Soviet Union states in the international financial institutions. This was done with the help of the G7 financial ministers and central bank governors who met with Russian ministers and representatives for discussing the most suitable approaches for the success of their reform program. In their meeting of April 1992, they agreed on providing financial assistance to Russia, through the loans of the IMF, and the assistance of the GAB [General Agreement to Borrow], as a “currency stabilization fund for Russia.”<sup>115</sup>

In April 1993 the G7 foreign and finance ministers and central Bank governors were requested by the G7 leaders to meet with the Russian ministers in order to discuss the situation in Russia and put a program for its reform, in preparation of the G7 summit meeting in that same year. The 1993 summit supported the agreements reached at the meeting of the finance ministers, and stressed its support for Russia and the other ex-Soviet Union states, as they undertake the difficult process of liberalizing their trade and preparing for membership in the GATT, and then the WTO.

In the 1994 G7 summit, member states showed their willingness to cooperate on trade partnership with Russia by declaring that they will “continue to work with Russia towards GATT membership, in order to advance Russia’s integration into the World economy and further improve access to our markets for Russian products.”<sup>116</sup>

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114- Communiqué of the 1993 Summit, Tokyo Summit Economic Declaration: A Strengthened Commitment for Jobs and Growth, Tokyo, July 1993, p4

115- Statement of the Finance Ministers and Central Bank Governors of the G7, Statement of the Group of Seven on their Meeting with Russian Representatives, April 26, 1992

116- Communiqué of the 1994 Summit, Naples, July 1994, p7

The importance of this summit is that it agreed upon the common fundamental foreign policy goals between Russia and the G7 states. Paramount among these goals are: support for democracy, free markets, and building new security relationships. These were agreed upon during the discussions on political issues attended by President Yeltsin who acknowledged that Russia will become a full G8 member only after its economy had fully recovered and had become at same levels with that of the other G7 states. But he asked the summit members to give Russia equal rights and not to consider it any more as a communist antidemocratic state.<sup>117</sup>

Three years later Russia did become a full member in the G8 summit. But the real reason was not the one stated by President Yeltsin. Because although Russia had realized a great progress in its economy and was able to achieve major reforms economically as well as politically, but still its economy is not at the same level of the other G7 states. Other outside economical powers could have got access to this group if it was only an issue of economical power. But what could be concluded is that Russia was admitted as a member for political and security reasons. From one side, this was a part of the bargain in order to make Russia accept the adherence of the East European states to the NATO. From another side, this was because Russia is making faster progress towards democracy than China, which makes it a more acceptable member among democratic states. This shows us that the G7, which was created in the 1970s to deal as a priority with economic issues, had shifted its priority in the 1990s to political and security issues.

In analyzing this case, we can see that the security interest is still having an influence on the meetings and decisions of the G7 states. They had to deal with Russia with great concern

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117- "Russia and the G7 Summit: Shared Goals and Common Understandings", in US Department of State Department Dispatch, July 1994, v5 nsupp-6 p9(2)

as to its military power and especially its possession of the biggest arsenal of nuclear weapons. After the collapse of the Soviet Union, the issue of helping Russia improve its economic situation and develop into a democratic system became the main concern of the G7 summits. It goes without saying that admitting Russia to the G7 served the national security interests of all the G7 member states, especially the European ones, which during the Cold War years were always fearful of Soviet military capabilities and intentions. In the case of Russia, the realist interpretation has more relevance. The attention given by the G7 to Russia was mainly a consequence of national security concerns. Nevertheless, there is room for a liberal interpretation, if Russia reforms its economy and expands trade and investment ties with the G7 members, this will substantially expand the markets for the G7 and will provide a major outlet for direct foreign investment from G7 countries.

## **6- The Environment**

The real concern for the environment began in the 1960s when environmentalists shifted from a concentration on the natural environment alone to an inspection of its interrelation with human beings. This concern was transferred to the United Nations that decided after a suggestion from Sweden to convene the first conference on human environment in June 1972, in Stockholm. This conference resulted in a number of guiding principles and recommendations for the preservation of the human environment. Another accomplishment of the conference was the establishment of the UNEP [United Nations Environment Program] “which will comprise all the activities undertaken within the United Nations system that

relate to the environment.”<sup>118</sup> Since then, the United Nations gave great concern to the protection of the environment and initiated many declarations and conventions on this issue.

The G7 states, all members in the UN General Assembly, were involved like all other member states in this awareness campaign for safeguarding the human environment. But it wasn't until the 1980s that the issue of protecting the environment appeared on their agenda. With increasing environmental problems and the acknowledgment of the greater role played by people and states in both causing and avoiding these problems, constructive action had to be taken. The importance of this issue for the G7 shifted from a single statement in their communiqués about the necessity for cooperation and better use of the natural resources, to a detailed analysis of the causes, effects and ways to deal with environmental problems. This sometimes took the major part of their communiqué [around eight pages].<sup>119</sup>

The most important environmental issues and problems that were dealt with were: climate change, biological diversity, protection of the ozone layer, deforestation, desertification, pollution of the air and the water, and the need to help developing countries resolve their environmental problems.

The major accomplishment of the G7 as related to the protection of the environment was to be seen in the 1992 United Nations Conference on Environment and Development in Rio de Janeiro [Earth Summit]. In their 1991 summit the G7 states had put a framework for what to be achieved before and during the Earth Summit. The following tasks were set: preparing frameworks for two conventions, on climate change, and on the management, conservation and sustainable development, as well as finding ways to help developing states overcome

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118- Essam El-Hinnawi, UNEP: Two Decades of Achievements and Challenges, Nairobi, 1992, p7

119- Communiqué of the 1989 Summit, Economic Declaration, Paris, July 1989, pp12-19

their environmental problems.<sup>120</sup> All seven leaders of the G7 were present during the Earth Summit and they tried to make sure that what they had agreed upon during their 1991 summit concerning the environment would be achieved.

At least two of their three major goals were implemented. First, a framework for a convention on climate change was put and the convention was ratified two years later. Second, a Sustainable Development Commission was established at the UN General Assembly in order to monitor the implementation of the Agenda 21. As related to the assistance that should be given to developing states and which was divided into financial and technological assistance, this was not fully implemented. The major obstacle was that help to the developing countries would be administered by the Global Environmental Facility [GEF], which is run jointly by the World Bank, the UNEP [United Nations Environment Program], and the UNDP [United Nations Development Program]. The developing countries did not want this help to be channeled through the GEF because the World Bank, which is considered to be under the authority of the industrialized countries, dominates it. The developing states wanted a special Fund, which they can share in managing and controlling. But the industrialized states did not believe in the capacity and honesty of the governments of these states in managing such a Fund. That is why this issue could not be solved the way the G7 states had planned for it.

The G7 states are still working through their summits and the appropriate organizations in providing whatever help possible to the developing world but only through their own perspectives of what is the best to be done. These industrialized states are causing the most damage to the environment through their advanced industries [the United States is the highest polluter by CO<sub>2</sub> emissions], but they are showing the developing world as causing the main

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120- Communiqué of the 1991 London Summit, p10

danger to the environment by being unable to deal completely with its environmental problems. The G7 states will not be able to achieve success in helping the developing countries unless they agree to let these countries share in deciding what is best for them. This step is beginning to be implemented in some of the developing states through a UNDP program. This program under the name of Capacity 21 has for its main goal the building of the environmental capacity and awareness of both the public and the private sectors, the public sector being the Ministry of Environment and any other environment-related ministry, and the private sector being the Non-Governmental Organizations [NGOs] and all other related private businesses. The final objective of such programs is to make people in both sectors, able to focus on environmental priorities and ready to deal with environmental problems.

### **Conclusion**

Although the G7 started out as a forum for coordinating economic policies, with time, it began looking at political and ecological concerns. This is mainly because the worlds of politics, economics, and even the ecology are so interdependent, making it hard to separate between them. This is also due to the fact that the G7 member states are at the same time, economical, political and military powers. But was their aim from these summits mainly to keep their power as states and accomplish their national interests, as the realist theory would interpret it?

This aim was not valid, because as we have seen in this chapter, the political issues that the G7 summits have dealt with were not always of direct interest for their members; but the growing interdependence in the world today makes any issue of some consequence to almost all states, especially the larger ones. The G7 summits had dealt with the issues of

international terrorism, arms control, the conflict in the Middle East, the crisis in Bosnia, the ways to help Russia after the collapse of the Soviet Union and the protection of the environment. It is true that most political issues dealt with had security implications on the G7 states but this was not their only concern. What really mattered in dealing with those political issues was the way to convince all G7 members on the need for cooperation on their behalf to reach appropriate solutions. This concept of cooperation made these summits different in a way that, they did not reflect anymore the system of a zero-sum game [when a party wins, the other will lose], but rather they conveyed non-zero-sum games, where gains and losses are shared more or less equally by members.

What also refuted the validity of the aim given by the realist theory was the importance given to existing international organizations, especially the United Nations, making the state no more the only relevant international actor. The liberal theory was able to give a better interpretation of summit meetings, because it acknowledged the great economic and political interdependence as well as the need for cooperation among states, and it highlighted the role of non-state actors [IGOs, NGOs, MNCs] in the international system.

## **Chapter Seven**

### **Conclusion**

This thesis tried to evaluate the effectiveness of summit diplomacy as a tool to implement foreign policy. This evaluation was based on the case study of the Group of Seven [G7] summit diplomacy, from its initiation in 1975 till the present date. The G7 summits were presented in Chapter Four in the forms of tables, showing the basic information about these summits, in order to give a descriptive idea about them. At the core of the analysis were the issues dealt with in the G7 summits, namely the economic issues [Chapter Five] and the political issues [Chapter Six]. Part of the analysis consisted of an evaluation of the respective validity of the realist and the liberal theories of international relations, as they pertain to summit diplomacy. After having described, analyzed and evaluated, this conclusion will give the final result reached at.

As an answer for the research question of this thesis: “why is summit diplomacy used as a tool by the G7 states and how effective it is in the implementation of their foreign policy?”, two issues have to be clarified. First, the reason behind the resort of the G7 states to summit diplomacy originated from an idea by two of their ex-finance ministers [Valery Giscard d’Estaing and Helmut Schmidt] that the gathering of leaders away from the advisors, the bureaucrats and the press will produce positive results especially when it came to sensitive economic issues. In the view of these two leaders, meetings at the summit level can generate better ideas and solutions for dealing with the issues on their agenda. These solutions will be better accepted and applied domestically, because they resulted of decisions adopted at the

highest level.<sup>121</sup> But the Group of Seven developed to become apparently a more ceremonial gathering, and substantially as the place where most international issues are dealt with. The effectiveness of the G7 summits was revealed by the accomplishments they have realized all through their meetings. The most important accomplishment was that they had secured a forum for friendly regular meetings since 24 years. In these meetings, the G7 states worked on stabilizing the international monetary system, they had pushed for the conclusion of the GATT agreements and the establishment of the WTO, and they had helped the states of the ex-Soviet Union [especially Russia] in their efforts for recovering from the consequences of the collapse of the communist system. They had also strengthened some of the international organizations [IMF, World Bank, and GATT] to help them deal with vital issues of the international system, and are still working on improving the status of other important international organizations [the UNO family].<sup>122</sup> While working for achieving global growth and strengthening international interdependence, the G7 member states were also trying to implement their foreign policies.

The United States found in these summits the right place to accommodate its differences with the other highly industrialized states. It used a kind of a bargaining system in issues of direct interest to it. For example, in the case of stabilizing its dollar value, the United States stressed on the G7 European states to play their part in achieving this goal, by opening their markets to more US goods. Another example is the issue of dealing with the Middle East conflict, where the United States showed lately its willingness to put more pressures on the Israeli state as long as the European states [in this case, France, Britain, and Russia] accept to play a more important role in this conflict. This greater role consisted of putting more

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121- David H. Dunn, *opcit*, p42

122- Mary Janigen, Carl Mollins, and Malcolm Gray, *opcit*, p33

pressures on the Arab states, and expanding their financial assistance to the Palestinian Authority to help it maintain a semblance of order to be able to face its opponent.

Japan had as a major foreign policy goal to stay as a neutral party between the two large blocs, the United States [with the North American countries] on one side, and the European countries [members in the G7] on the other side. The G7 summits gave Japan a place to accomplish another foreign policy goal, namely to compete economically with the United States without getting into political clashes. Whenever an issue of conflict between these two states emerged, it was put on the agenda of the G7 summits to find solutions for it before causing a major conflict.

The European states in the G7 were working on their major goal, which is to show their success in achieving their unity. They have sought to get over their differences at the G7 summits and as much possible to act as a united front. But the issue of assuming the leadership of this front was always raised between Germany and France. For the European states, members in the G7, the other main goal was to be able to participate in major political and economic decisions alongside with the United States.

In order to further elaborate on the answer to the research question, we have to analyze the hypotheses formulated in the introduction.

The first hypothesis stated that summit diplomacy would avoid the delay of time. This may have been true in cases where summits were used as a response to major crises that had to be dealt with urgently. In such cases, the quick gathering of the leaders [using their private jets] and the immediate decisions that they can take [no bureaucratic system to cause a loss in time] would be very crucial sometimes, to find a solution to a problem before it escalates into a crisis, more complicated to deal with. But this is not the case of the G7 summits, which had

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become institutionalized, occurring at a yearly basis, and dealing with a wide range of issues and problems. For the G7 summits, the issue of time is no more relevant, because for each summit, there is a one year period for preparing the agenda, studying the issues to be dealt with and working on the solutions to be proposed. After the summits, member states have enough time to ratify the decisions taken when such decisions require legislative approval, and to implement the solutions agreed upon.

The second hypothesis stated that the G7 states resorted to summit diplomacy mainly because the issues dealt with are important for their national and security interests. The analysis in Chapter Six had shown that the political issues dealt with by the G7 states are sometimes vital to their national and security interests, but the way they had tried to solve these issues showed that although security is at the background of the issue, but cooperation is the norm of behavior in dealing with these issues. International terrorism, arms control, and the conflict of the Middle East are all of security interests to the G7 states. But as we have seen in Chapter Six, the G7 states had acknowledged the necessity to join their efforts and cooperate with international organizations to find solutions that will safeguard these interests. The evaluation of this hypothesis reveals that the realist theory may be theoretically true [states are looking at issues of national and security interests for them], but in practice it was not as valid, because the G7 states did not fight over these security issues for achieving gains or losses, they had rather worked in cooperation to ease the tensions, find solutions and reach agreements on these issues.

The third hypothesis stated that G7 summit diplomacy is used to manage international economic and political interdependence. This hypothesis have great deal of validity, especially after the latest acknowledgment by the G7 states that the world is growing more and more interdependent, in a way that they are no longer able to deal alone with its

problems. That's why G7 states have been working on strengthening the existing international organizations and calling for greater involvement from the developing countries in dealing with common problems. Chapter Five had shown us that dealing with major economic problems took a great deal of time and efforts. This was due in first place to the complicated international monetary system [huge flow of money circulating around the world, world wealth concentrated in a small number of countries, developed states facing imbalances in their financial systems]. From another side, more time was needed because of the growing number of independent states with different domestic policies wanting to have a share in the international financial and economic systems. And finally, they had to put more efforts, because of lack of adequate past cooperation, which will necessitate the establishment of a new system of cooperation. All this will show the validity of the liberal interpretation on summit diplomacy, which highlighted the importance of interdependence and cooperation among states.

The fourth counter hypothesis stated that summit diplomacy is not very effective because it can be negatively affected by the personality of the leaders and their limited awareness of the issues discussed. The review of the G7 summits showed that this was rarely the case. First, because leaders are attending the meetings with an intention to implement a defined policy of their states which are all democracies, where leaders have no more the freedom to act and take whatever decisions that suit them, without referring back to their institutions. Second, because leaders have enough time and advisors to prepare them for the issues to be dealt with in the summits, in addition to the possibility of taking their experts with them to the meetings [but not gathered in the same room].

The fifth counter hypothesis stated that the ineffectiveness of the G7 summits is due, from one side, to their inability to solve some of the issues dealt with [i.e., the issue of

unemployment, the conflict in the Middle East], and from another side, for not being able to implement some of the decisions taken. This inability was due to the fact that these decisions could not be ratified domestically, or because they proved later on, not to be as effective as they were sought to be. But this could not deny the accomplishments that the G7 summits had done, especially in stabilizing the international monetary system, in finding solutions to the international trade problems, and in their work to strengthen the international organizations which will be assuming a greater role in the future.

We have seen that the G7 summits accomplished positive results for the majority of the issues they have dealt with. But whether they should continue this way, whether they should enlarge their membership or even reduce it, is still debatable. Some political and economical analysts who are in favor of the continuation of the G7 summits consider that what should be done is simply some reforms to the procedures of these summits in order to be able to implement or solve all the issues they are dealing with. These analysts look at a limited enlargement of the G7 as acceptable as long as it is for the improvement of its status and for making it more effective. The two greatest fighters for the survival of the G7 summits are Fred Bergsten and Randall Henning, both belonging to a school of “pro-cooperation internationalists”. These two internationalists believe strongly that “international cooperation could vastly improve the world economic condition.”<sup>123</sup> They consider the G7 summits as an essential element for this international cooperation, and argue that although the G7 did not lose their effectiveness, but it needs some adjustments to be able to be more accurate and deal with a wider range of issues. Bergsten and Henning consider that one of the adjustments could be the decrease of the group members from G7 to G3 [the United States, Japan and one European state]. This adjustment was acceptable to the more realist analysts who see the

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123- Rob Norton, “Are Summits Good for Anything?”, in Fortune, July 22, 1996, v134 n2 p29(1)

futility of international cooperation to deal with economic problems. These realist analysts consider that as long as what should be done to solve the economic problems is known, so let every state work by its own in order to make a progress.

Analysis, ideas, and conclusions can still be developing, but the fact is that these institutionalized summits had survived for 24 years and their member states are planning to go on with their work, enlarging the membership of the Group [G8 with admission of Russia], not reducing it.

As a conclusion for my work, I can state that the Group of Seven summits were effective in dealing with many issues. Their success as a forum where cooperation is the norm of behavior among member states, validates the analysis of the liberal theory for meetings at the highest level. These eight states [we can no more ignore the participation of Russia] are the leaders of the international system, and the G8 is their forum to emphasize this leadership. In the view of the great interdependence among states, their achievements are not beneficial to them alone, other non member states had benefited from these achievements [i.e., some of the LDCs as related to solving their debt problem]. On the other hand, the G7 states gave the highest priority to issues of importance to their domestic and foreign policies [i.e., the problems of unemployment and international terrorism], which gives partial validity to the realist theory.

As a citizen of a third world country, I look at this success with envy, hoping that one day our leaders will be able to gather in an effective forum to deal with our problems, and to give priority to our domestic and foreign policies. Up till that time, I hope that this thesis would have clarified the importance of summit diplomacy, the role of the G7 summits, their accomplishments, their problems, and whether they were effective enough to be able to survive for another decade or even longer.

# **APPENDIX 1**

## **COMMUNIQUE OF THE 1996 SUMMIT**

### **LYON SUMMIT – ECONOMIC COMMUNIQUE**

#### **MAKING A SUCCESS OF GLOBALIZATION FOR THE BENEFIT OF ALL**

##### **LYON - FRANCE**

**28 June, 1996**

#### **PREAMBLE**

1. We, the Heads of State and Government of seven major industrialized democracies and the President of the European Commission, have met in Lyon for our 22<sup>nd</sup> annual Summit. Our discussions have taken place within the framework of a reflection on benefits and challenges posed by increasing economic globalization.

2. Economic growth and progress in today's interdependent world is bound up with the process of globalization. Globalization provides great opportunities for the future, not only for our countries, but for all others too. Its many positive aspects include an unprecedented expansion of investment and trade; the opening up to international trade of the world's most populous regions and opportunities for more developing countries to improve their standards of living; the increasingly rapid dissemination of information, technological innovation and the proliferation of skilled jobs. These characteristics of globalization have led to a considerable expansion of wealth and prosperity in the world. Hence, we are convinced that the process of globalization is a source of hope for the future. History shows that rising living standards depend crucially on reaping the gains from trade, international investment and technical progress.

3. Globalization also poses challenges to societies and economies. Its benefits will not materialize unless countries adjust to increased competition. In the poorer countries, it may accentuate inequality and certain parts of the world could become marginalized. The adjustment needed is, however, imposing rapid and sometimes painful restructuring, whose effects, in some of our countries, can temporarily exacerbate the employment situation. Globalization of the financial markets can generate new risks of instability, which requires all countries to pursue sound economic policies and structural reform.

4. Our countries have made a decisive contribution to the progress of liberalization and globalization. We must do our best to ensure that this process fully responds to the hopes it has aroused and that globalization serves the interest of people, their jobs and their quality of life. The potential benefits of the process for people must be translated into real opportunities in our own societies and in the poorer countries of the world. In an increasing interdependent world we must all recognize that we have an interest in spreading the benefits of economic growth as widely as possible and in diminishing the risk either of excluding individuals or groups in our own economies or of excluding certain countries or regions from the benefits of globalization.

5. This requires increased international cooperation. The adaptation of our international institutional structures; liberalization of markets, fair rules and their extension to new players; the capacity to respond to crises of varying scale and nature as well as a readiness to support the efforts of those countries striving to escape from the miseries of economic underdevelopment will be necessary for future progress. We call upon other countries with the financial capacity and a stake in the international trade and monetary system to join us in these efforts so as to share the responsibilities and the burdens fairly among ourselves and with others. We will thus be able to make a success of globalization for the benefit of all.

## **I. STRENGTHENING ECONOMIC AND MONETARY COOPERATION**

6. Growing international economic interdependence unquestionably holds out new opportunities for the entire global community. At the same time, it adds to our collective responsibilities and the need for more effective cooperation among our countries to face new challenges.

7. Since we met in Halifax, economic developments have been on the whole positive and disparities of economic performance among us have been narrowing. Canada and the United States continue to enjoy sustained non-inflationary growth. In Japan, the recovery is gathering strength. Some European countries, admittedly, experienced a slowdown, but economic fundamentals are improving and we are confident that growth will pick up in the second half of the year.

Looking ahead, the economic fundamentals remain sound and well oriented: inflation has settled at a low level, the interest rates have come down substantially, reaching historically low levels in some of our countries and external and internal imbalances have been substantially reduced. However, we recognize that difficulties still lie ahead: public deficits and debt remain too large and national savings too, unemployment is still unacceptably high in many countries and despite all the progress already achieved in the area of structural reforms, our economies are not yet as resilient and adaptable to changes as they should be. Outside the G7 sphere, economic prospects also look very encouraging. Emerging economies are experiencing robust growth. Sound macroeconomic policies and progress toward market-based institutions have contributed to improving economic performance in many developing countries and countries in transition.

**8.** In this context, our economic policies will continue to be directed at sustaining non-inflationary growth. This is a vital prerequisite to the creation of jobs and bringing down unemployment. While recognizing that our individual circumstances may vary, we share a common commitment to a medium-term economic strategy: credible fiscal consolidation programs, successful anti-inflationary policies and as a consequence low interest rates, and strengthened structural reform. These should contribute to investment, growth and job creation. Such policies will contribute to reducing external imbalances, thereby promoting international monetary stability and maintaining the conditions for harmonious growth in the global trade and business.

**9.** Sound economic policies are the most important foundation for preventing exchange rate misalignment that may heighten uncertainty in the global economy and be detrimental to trade and growth. We welcome the broad movements in the major currencies since April 1995. These are positive and promising developments, and have helped to improve the conditions for sustained growth across the G7. We endorse the views of our Ministers of Finance on international monetary stability. We request our Ministers of Finance to continue to cooperate closely on economic policy and in the exchange markets. In this connection, we attach importance to the implementation of improved practical measures to deal with risks relating to the operation of the global financial markets and we request our ministers to report to the next Summit on this issue.

**10.** The globalization of the financial markets has contributed to the creation of a more complex financial environment. Better prudential regulation and supervision in the financial markets are essential elements in preserving the stability of the international monetary and financial system. In this respect, we welcome the progress on the strengthening of capital standards, including the recent agreement on capital adequacy standards for banks' exposure to market risk, improved disclosure and enhanced surveillance.

**11.** Cooperation among regulatory and supervisory authorities should continue to adapt to financial innovations, and to the growth in cross-border capital movements and internationally-active financial institutions. We welcome the work accomplished by the international bodies concerned with banking and securities regulation. Over the year ahead, we should seek to make a maximum progress on the following objectives:

- enhancing cooperation among the authorities responsible for the supervision of internationally-active financial institutions, importantly by clarifying their roles and responsibilities;
- encouraging stronger risk management and improved transparency in the markets and connected activities, especially in the innovative markets;
- encouraging the adoption of strong prudential standards in emerging economies and increasing cooperation with their supervisory authorities; international financial institutions and bodies should increase their efforts to promote effective supervisory structures in these economies. We ask our Finance Ministers in consultation with the relevant institutions to report back on this issue in our next meeting;

- studying the implications of the recent technological advances which make possible the creation of sophisticated methods for retail electronic payments and how to ensure their benefits are fully realized.

**12.** The increased integration of global capital markets, the changes in magnitude and composition of financial flows, and the increased diversity and the number of creditors and borrowers present new opportunities and new challenges. That is why, in order to promote monetary stability, we proposed last year in Halifax a number of measures for the international financial system, notably the International Monetary Fund, to strengthen the ability to deal effectively with these challenges.

We welcome the work accomplished since the Halifax Summit toward the implementation of these proposals. The surveillance capacities of the IMF have been enhanced, standards for the provision of economic and financial information to the markets have been established and an emergency financing mechanism has been created. We welcome the G10 report on resolving the liquidity crises of sovereign borrowers. This report emphasizes the importance of market discipline, and calls for the enhancement of current procedures for handling international financial emergencies, in order to minimize the need for official support in the future.

**13.** Together with the international community as a whole, we undertake to ensure that the IMF has the resources needed to perform its tasks in the service of international monetary stability:

- We welcome the agreement reached on a framework for doubling the resources currently available to the IMF under the General Arrangements to Borrow in order to respond to financial emergencies. These arrangements will include a broader group of countries with the capacity to support the international monetary system.

We welcome this sharing of monetary responsibilities, thereby adapting our cooperation to new economic circumstances;

- The IMF should remain an institution based on quotas providing the resources necessary to accomplish its traditional tasks. Any increase in quotas should take into account the changes in the economic and financial weight of its members. Given the prospective evolution of the Fund's liquidity, we request that the 11<sup>th</sup> quota review be completed as soon as possible.

**14.** Lastly, the IMF should continue to reflect on the role of Special Drawing Rights within the international monetary system. We continue to hope for progress on proposals that would permit all Member countries to participate on an equitable basis in the SDR system. We invite the IMF Member States to pursue their dialogue in order to settle this issue.

**15.** As we recognized last year, international financial fraud is a growing problem for our financial systems. In order to strengthen the fight against this phenomenon, we will continue to look for ways of facilitating, as much as possible, the exchange of information on cases involving serious financial crime and regulatory abuse between law enforcement agencies and regulatory bodies, in accordance with our own domestic legal systems and other basic principles. We intend to maintain our dialogue to review progress and developments in this field.

16. Finally, globalization is creating new challenges in the field of tax policy. Tax schemes aimed at attracting financial and other geographical mobile activities can create harmful tax competition between States, carrying risks of distorting trade and investment and could lead to the erosion of national tax bases. We strongly urge the OECD to vigorously pursue its work in the field, aimed at establishing a multilateral approach under which countries could operate individually and collectively to limit the extent of these practices. We will follow closely the OECD's continuation of its important work on transfer pricing, where we warmly endorse the significant progress that the OECD has already achieved.

17. In order to face the challenges of economic and fiscal impact of aging populations, we remain committed to ensuring sustainability of our social security system.

## **II. PROMOTING STRONG AND MUTUALLY BENEFICIAL GROWTH OF TRADE AND INVESTMENT**

18. Expanding trade and investment has led to marked increases in global wealth and prosperity and should continue to play this role in the future. Growth in trade and investment will be sustainable and therefore most beneficial to all if conducted within a strong multilateral framework of rules.

19. We give high priority to achieving a multilateral agreement on investment in the OECD that provides high standards of investment protection and liberalization, with effective dispute settlement. We look forward to the successful completion of these negotiations by June 1997.

20. We place a high priority on an efficient, dynamic, respected and open multilateral system. We reaffirm the central role of the WTO and the preeminence of multilateral rules, which should serve as the framework for regional initiative.

We reaffirm our commitment to working to strengthen the confidence in and credibility of the multilateral trading system by avoiding taking trade and investment measures that would be in contradiction with WTO rules and OECD codes, and by using and complying with any applicable provisions for consultation and dispute settlement when differences arise. We emphasize that bilateral or regional free trade agreements should be trade liberalizing and should cover substantially all trade.

We will continue to monitor the strict implementation of commitments and precise compliance with timetables agreed at the end of the Uruguay Round. In accordance with the rules of the World Trade Organization and on the basis of significant liberalization commitments we support the accession of new members to the WTO.

21. We recognize the importance of the integration of developing countries in the global trading system as an essential element of sustainable growth and development. We have agreed on ways to help developing countries, especially the least developed, to the benefit more fully from the results of the Uruguay Round.

**22.** Together with our partners we will work for the success of the first ministerial conference of the WTO in December 1996. We will ensure full and effective implementation of the Uruguay Round results according to the agreed timetables.

We are resolved to complete all ongoing negotiations in the service sector and to relaunch talks in Singapore on financial services so as to reach significant, balanced and non-discriminatory liberalization commitments by December 1997.

We strongly support the conclusion of a mutual beneficial Information Technology Agreement.

**23.** Global liberalization of trade and a high level of environmental protection should be mutually supportive. It will be important, for example, to ensure that WTO rules and multilateral environmental agreements and ecolabelling programs are complementary. The Singapore Ministerial Conference of the WTO will be an important opportunity to demonstrate the ability and willingness to integrate environmental protection and thus sustainable development concerns into the multilateral trading system. We welcome the ongoing work launched at Marrakech and look to the Singapore Ministerial Conference to make substantive recommendations for action.

**24.** In addition to pursuing full implementation of the Uruguay Round agreement, we invite the WTO Ministerial Conference to broaden its agenda to include topics of special importance for trade and investment liberalization, by:

- beginning an examination of trade and investment in the WTO and work towards a consensus which might include the possibility of negotiations;
- discussing the interaction between trade and competition policy with a view to determining how to proceed;
- exploring possible new industrial tariff initiatives in sectors to be agreed by consensus.

We also recognize that there is a will to address the question of the relationship between trade and internationally recognized core labour standards.

We also believe that there is a more to be done in areas where other obstacles still seriously impede freer access to markets, in particular:

- by encouraging more convergence between national standards and international norms, by further regulatory reform and by mutual recognition of procedures for testing and for certification;
- by enhancing the disciplines of and expanding the number of countries subscribing to the Agreement on Government Procurement and, in furtherance of this goal, by developing an interim arrangement on transparency, openness and due process in government procurement practices;
- by effectively enforcing and further developing intellectual property disciplines.

25. In order to facilitate the free flow of trade, we will initiate an effort to further standardize and simplify customs procedures among our countries. Uniform documentation and electronic transmission standards would reduce costs for business and government, complement efforts in the WTO by eliminating barriers to trade and development, and so promote growth.

26. Lastly, we are resolved to combat corruption in international business transactions, which is detrimental to transparency and fairness and imposes heavy economic and political costs. In keeping with the commitment of OECD Ministers to criminalize such bribery in an effective and coordinated manner, we urge that the OECD further examine the modalities and appropriate international instruments to facilitate criminalization and consider proposals for action in 1997.

27. Looking ahead beyond the Singapore Ministerial Conference and recognizing that our next meeting will take place on the eve of the 50<sup>th</sup> anniversary of the founding of the multilateral trading system, we are committed to working together with our partners to give sustained impetus to trade liberalization.

### **III. ENHANCING OUR APPROACH TO EMPLOYMENT PROBLEMS**

28. The development of a more global economy and advances in information technology are engines of economic growth and prosperity. But they also may be seen by some as a source of dislocation and insecurity. Our challenge is to ensure that our economies can adapt so that all our citizens can benefit from the opportunities created by the new global economy. We must achieve both economic growth and a widely shared prosperity. The reduction of unemployment and the creation of quality jobs are urgent priorities. We recognize the crucial role of the private sector for achieving these goals.

29. We seek to enhance the effectiveness of policies aimed at stimulating growth and jobs. This requires action in a wide range of structural policies, within a framework of sound macro-economic policies. We welcome the conclusions reached by the Ministerial Conference on Employment in Lille, and we have agreed to pursue the following policies:

- we reaffirm our belief that investment in people is as vital as investment in capital. We will therefore pay special attention to a sound basic education, skill formation and training, which is a lifelong undertaking, and to improving the transition from school to work;

- we are determined to prevent and fight against social exclusion. We must define ways to reinforce people's employability throughout their working lives by facilitating the transition from one job to another;

- we pledge to carry out practical reforms, consistent with the specific situation in each of our countries, aimed at achieving a high level of employment and widely-shared prosperity: these include tax and social system reforms to ensure that "work pays", particularly for the least well-off; lowering social security charges which place a burden on low-skilled jobs, in countries with high indirect labour costs; and improving public employment agencies;

- in order to foster entrepreneurship we will modernize our regulatory frameworks where needed in the markets for goods and services, to enhance our economies' ability to respond to rapid change and to encourage job creation; we welcome the work on regulatory reform by the OECD and look forward to its conclusions;

- we will facilitate the dissemination, notably in the direction of small and medium-sized businesses, of new technologies, which are creating plentiful, quality jobs.

**30.** We thank the ILO and the OECD for the quality of their contributions to the Lille conference. We very much hope that these two organizations will continue their work especially on the interaction between macroeconomic policies and structural reforms, as well as on "best practice" in the fields of technology, innovation and investment in human capital in the best-performing businesses, and policies to enlarge employment opportunities for the most vulnerable workers of the society.

**31.** We welcome the proposed meeting in Japan to reflect in greater depth on employment issues.

#### **IV. IMPLEMENTING A NEW GLOBAL PARTNERSHIP FOR DEVELOPMENT: AN AMBITION FOR THE 21<sup>ST</sup> CENTURY**

**32.** Thanks to sound domestic economic policies and to an increasingly global economy, many developing countries are experiencing robust growth, assisted by their expanding involvement in international trade and capital inflows. But there is a growing divide between these countries and those, mainly low income countries, which are currently unable to benefit from these opportunities and are falling further behind.

**33.** We need therefore to define a new global partnership between developing countries, developed countries and multilateral institutions. This will involve a fresh look at development policies including development aid, its content and the bilateral and multilateral instruments through which it is provided.

**34.** This new partnership should set its sights on enabling all developing countries, whatever their stage of development, to share and participate in the benefits of globalization. To that end, it should take the achievement of sustainable development as its fundamental objective. Goals should include the reduction of poverty and social inequities, the respect of internationally recognized labour standards, protection of children, a strengthened civil society, protection of the environment, improved health and education.

**35.** We want the partnership to achieve concrete results. We emphasize the usefulness of indicators capable of measuring progress toward development objectives in specific countries in areas such as extreme poverty, infant, child and maternal mortality, and primary education. Other essential aspects of development must also be considered, including a number of non-measurable qualitative factors.

We welcome the ongoing work of the OECD on this subject.

**36.** The new development partnership should be mutually beneficial and based on a spirit of solidarity and burden-sharing among all those involved:

- the developing countries have a fundamental responsibility for promoting their own development. This means conducting sound and consistent economic and social policies, promoting a political and legal environment conducive to the development of the private sector, and encouraging domestic and foreign investment. Democracy, human rights and good governance are indispensable components of development. It is up to these countries to give priority to funding social and economic development programs and to avoid unproductive expenditures, in particular excessive military spending, without prejudice to their right to self-defence. It is in their interest to commit themselves actively to the multilateral system and to promote regional cooperation;

- the developed countries must support the efforts of the developing countries in a spirit of common purpose and efficiency. Their growth and market-opening policies also benefit developing countries. In implementing these policies, they should seek to create an environment which encourages trade and private financial flows in the developing countries direction. Bilateral agreements for investment protection and generalized preference measures contribute to this objective. We renew our commitment to secure substantial flows of official aid and to improve the quality of this aid. The whole international community should be mobilized in this effort, and new donors should assume growing responsibility, so that the burden is more equally shared;

- the multilateral development institutions, cooperating among each other and with bilateral donors, play an important role in promoting development and encouraging the developing countries to reduce poverty, to implement sound economic policies and to improve capacity. They must be provided with sufficient and appropriate financial resources for this purpose. Their strength depends on the active participation of all members. Efforts by the multilateral institutions to discourage unproductive expenditures in developing countries should be pursued and supported by donor countries in their own bilateral aid and credits.

**37.** Within the framework of this new partnership, the priority must be to implement more effectively-targeted policies, with four complementary objectives:

- external financial support should take into full account the differentiation between countries in transition, emerging economies and the poorest countries. Sub-Saharan Africa continues to face unusually severe challenges. We will concentrate resources on those countries that need them most and that can use them effectively, reflecting the fact that their policy program is credible and that their Government is fully committed to implement it. Grants and concessional financing should be directed primarily to meet the financial requirements of the poorest countries which have no or limited access to the international capital markets, once they can demonstrate their commitment to create the conditions to use them effectively;

- giving more explicit priority to sustainable development and the alleviation of poverty. This should mean adequate ODA funding of essential sectors such as health and education, basic infrastructures, clean water schemes, environmental conservation, micro-enterprises, agricultural research and small-scale agriculture, with for example the help of IFAD;

- we should support the establishment of a dynamic and competitive private sector in developing countries based on a small and medium scale enterprises. ODA can play a catalytic role in creating the conditions in which such a private sector can flourish;

- lastly, further integrating the Least and Less Developed Countries into the global economy, using the full range of policy instruments having an impact on development. Within the multilateral environment which has emerged from the Uruguay Round Agreement, this should be an essential objective. We will support the LLDC's efforts to achieve such integration, for example, by responding favourably to requests for technical assistance in the fields of investment, privatisation and export diversification, and encouraging international organisations and programs to do likewise. We will implement the provisions of the Marrakech Decision on Measures in Favour of Least Developed Countries. In this context we will examine what each of us could do to improve their access to our markets and we encourage others to do the same, including other developing countries.

## **V. ENHANCING THE EFFECTIVENESS OF MULTILATERAL INSTITUTIONS FOR THE BENEFIT OF DEVELOPMENT**

**38.** To be effective in supporting this global partnership for development, the multilateral institutions must pursue their efforts to adapt and reform. We welcome the widespread support for institutional reform that has arisen in the past year and we are determined to help increase this momentum.

**39.** In Halifax a year ago, we called for reforms of the international financial institutions in order to improve coordination, reduce overlap, and increase their effectiveness. Reform efforts have intensified over the past year. The reform of the Development Committee has made it possible for Ministers from the developed and developing countries to consider issues together and provide guidance to the institutions. The World Bank and the IMF are cooperating more closely with tangible results, for example in their joint studies on debt and public spending. Collaboration among the heads of the multilateral development banks has been intensified. Operational and administrative reforms are underway and attention must be directed to effective implementation.

We commend the work undertaken by the Multilateral Development Banks to make procurement processes more transparent. We encourage efforts by all the multilateral institutions to support reforms that will help to promote good governance and to reduce corrupt commercial practices.

A sustained effort is needed in reforming the development banks to achieve better results on the ground, while reducing costs further. We endorse the recommendations of the Development Committee Task Force for closer cooperation between banks at all levels.

**40.** In Halifax, we committed ourselves to encourage the broadening and deepening of the reform process underway in the United Nations system. We believe that our initiatives have significantly contributed to an increasing awareness of necessary changes in the system as a

prerequisite for improved efficiency, with a view to tangible benefits for recipients of the various development activities.

We particularly appreciate the outcome of the 9<sup>th</sup> session of UNCTAD at Midrand where we succeeded, together with all our partners, to pave the way for a thorough reform which can also be regarded as an important point of reference for the reform of the UN economic and social sector. We also deem significant the recent decision to strengthen the coordinating role of ECOSOC. We welcome the UN regional economic commissions initiatives to examine their activities, adjust priorities, restructure programs and reorganize their staff to increase efficiency and cost effectiveness.

We will work with other members to make rapid progress in the reform of the UN in order to rationalize and strengthen its role in development.

**41.** The United Nations plays a crucial role in the organization of international cooperation in favour of sustainable development, and in fostering consensus around development objectives and policies.

The UN's priority areas are, notably: reduction of poverty, employment, housing, the provision of essential services, and especially those relating to health and education, the advancement of women and protection of children, and humanitarian assistance in general.

The UN also has a fundamental role to play in promoting democracy, human rights and the rule of law, protection of the environment, emergency relief and post-conflict stabilization, and technical assistance to enable the poorest countries to participate in international trade and investment.

**42.** In order to be more effective in the field of development, the UN must clarify its role and comparative advantages. It must enhance the efficiency of its Secretariat and operational framework, make them more coherent and ensure genuine coordination at all levels. Proposals to that effect should focus on existing structures and build on ideas which have emerged in various discussions on UN reform.

**43.** Reform could center upon the following main points:

- the three Secretariat departments responsible for development should be merged under the authority of a single Under Secretary-General;

- the Under Secretary-General should notably serve as Executive Secretary of ECOSOC in order to enhance the Council's policy formulation and coordinating role;

- the Secretary-General, assisted by the Under Secretary-General and supported by the Head of the UN Office of Internal Oversight Services, in cooperation with the heads of agencies, should urgently review the roles and mandates of specialized agencies and commissions involved in development with a view to eliminating overlap and improving effectiveness. This review should include an examination of the case for merging their development

functions. The Secretary-General should make recommendations in this sense and pursue their implementation through the Administrative Committee on Coordination and ECOSOC;

- upon being appointed, the Under Secretary-General should support the process by conducting a review of existing UN development funds and programs in close consultation with the heads of relevant individual bodies. Where a strong case for rationalization can be made, funds and programs should be merged into the UNDP, which would thus be enhanced;

- the Under Secretary-General should also carry forward the rationalization of UN's economic analysis and reporting in consultation with other organizations involved in economic analysis such as the IMF, the World Bank and the OECD, with a view to eliminating duplication;

- UN field premises and administrative systems in the field should be further consolidated and the timetable for approval of UNDP, UNFPA and UNICEF country programs should be harmonized;

- savings resulting from improved cost effectiveness should be reinvested in development programs. The Secretary-General should study ways of implementing this goal.

**44.** UNCTAD IX was a major milestone in the renewal of UNCTAD. In close partnership with the other member States, we succeeded in reforming UNCTAD's intergovernmental machinery and in refocusing its work on a small number of priorities to promote development through trade and investment with the aim of facilitating the integration of developing countries in the international trade system. We are committed to the implementation of these reforms. The LLDC's will be the major beneficiaries of this action. We also welcome the WTO and the renewed UNCTAD initiative to enhance mutual cooperation with each other, with due regard to their respective mandates.

**45.** We urge greater cooperation between UN agencies, the international financial institutions and the WTO:

- regular meetings between the United Nations Secretary General, the IMF Managing Director, the World Bank President and the WTO Director General, and at other levels, would assure the coordinated and concerted action of these institutions. This closer cooperation must take into account the necessity for each institution to concentrate on areas of comparative advantage and to avoid unnecessary duplication;

- UNDP, other UN agencies, the World Bank, the IMF, the WTO and the regional development banks could work together, in full cooperation with the host country, in the preparation of country strategy reports submitted to their respective governing bodies. Regular meetings of donors in each country should be organized to facilitate the exchange of information and the shaping of programs according to the comparative advantages of each institution. Bilateral donors should be involved in this process. The resident United Nations co-ordinator or the World Bank or regional development bank representative could organize these meetings at regular intervals. Such meetings will help coordinate and rationalize the work of donors while reducing costs;

- the non-military aspects of peace operations (including such tasks as democratization, police training, institution building, and delivery of humanitarian assistance) should be addressed through a comprehensive approach. In this regard, we encourage a closer cooperation between the United Nations, the International Financial Institutions and the relevant regional organizations, in order to facilitate the transition between the emergency intervention phase and the rehabilitation phase. Consultation among multilateral and bilateral donors in post-conflict countries should also be reinforced.

## **VI. PROVIDING THE NECESSARY MULTILATERAL SUPPORT FOR DEVELOPMENT**

46. The replenishment of the concessional resources of the multilateral financial institutions must be completed. In this context, we stress the importance of sharing this burden equitably, we welcome the emergence of new donors and we encourage other countries to participate.

47. We welcome the fact that all donors have agreed to contribute to IDA-XI and the activation of the Interim Trust Fund. This agreement will enable the Association to lend up to USD 22 billion over three years. This is a major success. It is important that all donors ensure the success of IDA-XI by fully respecting their commitments on time.

48. We also welcome the replenishment of the resources of the African Development Fund, whose work is of vital importance for this continent, recognizing the reforms already made by the management of the Bank. Timely replenishment of the Asian Development Fund is also important.

49. We are committed to a continuing Enhanced Structural Adjustment Facility (ESAF) as the centerpiece of the International Monetary Fund support for the poorest countries, and we welcome the proposals of the Managing Director of the IMF for greater concessionality in ESAF lending for a limited number of poor and highly indebted countries, as the IMF's contribution to putting them in a sustainable position. We will examine constructively and positively the options for financing the needed subsidies, using primarily resources held by the IMF, without excluding bilateral contributions. If needed, the IMF should consider optimizing its reserves management in order to facilitate the financing of ESAF. This will enable the IMF to hold out to the poorest countries the prospect of macro-economic stability and structural reforms aimed at growth.

50. we welcome progress achieved in the alleviation of the debt problems and the active implementation, by the Paris Club, of the Naples terms. However, for some heavily indebted poor countries, we acknowledge the need for additional action, in particular to reduce debts owing to multilateral institutions and other bilateral creditors that are not members of the Paris Club. Following the proposals developed by the Bretton Woods Institutions, we look forward to a concrete solution being agreed by next Autumn at the latest on the following basis:

- the solution should provide an exit for unsustainable debt and be based on a case by case approach adapted to the specific situation of each country concerned, once it has shown its commitment to pursuing its economic adjustment;

- the continuation of ESAF will provide the basis for a reduction in the burden of the debt to the IMF for these countries;

- we welcome the proposal by World Bank management to commit 500 millions \$ to this initiative and substantial amounts for future years. We will support and work together for an overall World Bank together with the Regional Development Banks to develop practical funding mechanisms for treating debt owed to these institutions;

- as concerns bilateral credits, we are committed to work, in conjunction with a maximum possible contribution by the World Bank and the IMF, to achieve financial viability and debt sustainability for all these countries which undertake the necessary adjustment efforts. We acknowledge Official Development Aid debt cancellation already given by some creditor countries. We urge the Paris Club creditor countries, where they deem appropriate, on a case by case basis, to go beyond the Naples terms for these countries. These efforts would include, on a voluntary basis, debt conversion schemes up to 20% instead of currently 10% of the stock of debts, and increased debt alleviation. In parallel, and on the basis of the same assessment, all other bilateral creditors are encouraged to make their own contributions to these countries in terms comparable.

## **VII. TOWARD SUCCESSFUL INTEGRATION OF COUNTRIES IN TRANSITION INTO THE GLOBAL ECONOMY**

**51.** The end of the cold war has given a decisive impetus to globalization by offering former socialist economies the opportunity to assume their rightful place in the world economy.

**52.** We welcome the good economic results achieved by many countries in transition which have undertaken macro-economic stabilization and structural reform. Many countries, especially in Central Europe, have pursued resolute stabilization and structural reform programs and have achieved robust growth last year. Other countries which have not yet embraced reform fully lagged behind. Most of the countries of the former Soviet Union started reforms later than Central Europe, but many of them are poised to begin growing this year. We encourage all countries in transition to pursue their economic reforms in order to achieve or consolidate these gains. The EBRD plays an important role in supporting these reforms and we welcome the agreement to increase its capital.

**53.** we support Ukraine's efforts to continue with political and economic reforms and to further integrate into the world economy. In this respect we welcome the latest agreement with the IMF and encourage Ukraine to fully implement the agreed reform program.

We welcome the Moscow Summit declaration relating to Ukraine and the commitment of President KUCHMA to close the whole plant by the year 2000. We reaffirm our commitment to full implementation of the Memorandum concluded with Ukraine, through close

cooperation with this country and the international financial institutions. In this regard, we welcome the financial decisions already taken by the international community, and we stress that all parties concerned must respect the agreed agenda of the comprehensive program.

**54.** We support Russia's ongoing political reform and its commitment to democracy. Economic and political reforms are mutually reinforcing and position Russia to play a more significant role in the global economy. We welcome the agreement between the Russian authorities and the IMF on an EFF. This agreement testifies to Russia's continued commitment to financial stabilization and economic reforms. Russia's economic success and its integration in the world economy depend on full implementation of its commitment. Crucial for economic recovery is now private investment which requires a reliable economic, legal and administrative environment. We welcome the historical agreement between Russia and the Paris Club on a comprehensive medium-term rescheduling of Russia's external debt, which will enable this country to exit from the rescheduling cycle. This agreement will enable discussions to take place between Russia and the members of the Paris Club to see whether conditions could be agreed for Russia's participation as a creditor.

#### **NEXT SUMMIT**

**55.** We have accepted the invitation of the President of the United States to meet in Denver next year.

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