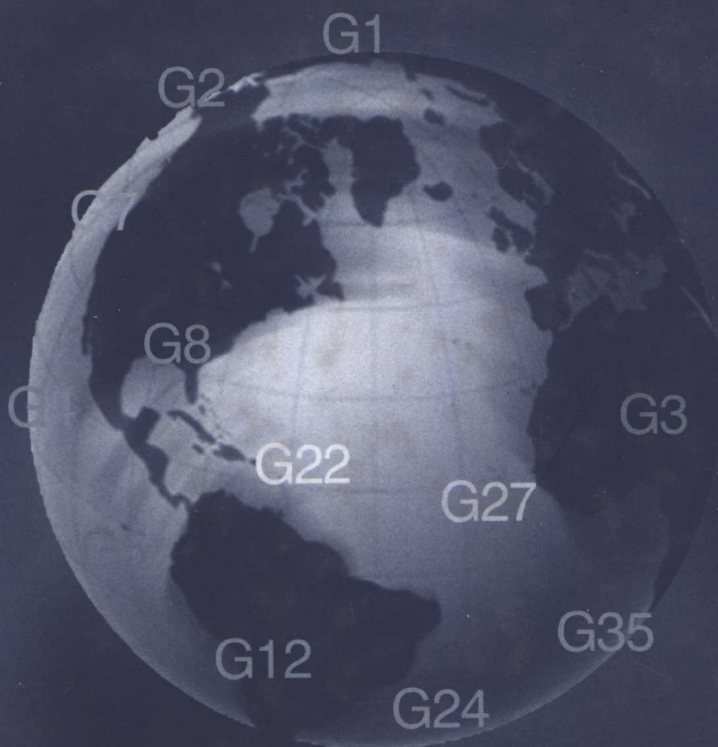


THE G8 AND GLOBAL GOVERNANCE SERIES



# The G8's Role in the New Millennium

Edited by  
Michael R. Hodges, John J. Kirton  
and Joseph P. Daniels



# The G8's Role in the New Millennium

*Edited by*

MICHAEL R. HODGES

*London School of Economics and Political Science*

JOHN J. KIRTON

*University of Toronto*

JOSEPH P. DANIELS

*Marquette University*

## Ashgate

Aldershot • Brookfield USA • Singapore • Sydney

© Michael R. Hodges, John J. Kirton and Joseph P. Daniels 1999

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the publisher.

Published by  
Ashgate Publishing Ltd  
Gower House  
Croft Road  
Aldershot  
Hants GU11 3HR  
England

Ashgate Publishing Company  
Old Post Road  
Brookfield  
Vermont 05036  
USA

**British Library Cataloguing in Publication Data**

The G8's role in the new millennium

1. Group of Eight (Organization) 2. International economic relations - Congresses

I. Hodges, Michael R. II. Kirton, John J. III. Daniels, Joseph P.

337.1

**Library of Congress Cataloging-in-Publication Data**

The G8's role in the new millennium / edited by Michael R. Hodges,  
John J. Kirton, Joseph P. Daniels.

p. cm.

Includes bibliographical references and index.

ISBN 1-84014-774-1 (hardback)

1. International economic relations--Congresses. 2. Economic policy--Congresses. I. Hodges, Michael R., 1945-1998. II. Kirton, John J. III. Daniels, Joseph P.

HF1359.G26 1999

337--dc21

99-12584

CIP

ISBN 1 84014 774 1

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

# List of Contributors

**Sir Nicholas Bayne, KCMG** is a Visiting Fellow at the International Relations Department of the LSE. As a British diplomat, he was High Commissioner to Canada, 1992-1996, Economic Director at the FCO, 1988-1992, and Ambassador to the OECD, 1985-1988. He is co-author, with Robert Putnam, of *Hanging Together: Cooperation and Conflict in the Seven Power Summits*.

**Bronwyn Curtis** is Chief Economist of Nomura International in London. She is a well-known commentator on financial market issues and author of numerous articles on economic topics. Previously Global Head of Foreign Exchange and Fixed Income Strategy at Deutsche Morgan Grenfell. She joined Deutsche Bank in London in 1988 after an extensive career in international commodity markets.

**Professor Joseph P. Daniels** is Associate Professor of International Economics at Marquette University, Milwaukee, Wisconsin, and was Visiting Professor of Economics and International Relations, University of Toronto in 1997-98. An established scholar on the G7 Summit process, he has published widely on international economic policy processes.

**Professor Charles Goodhart, CBE** is Norman Sosnow Professor of Banking and Finance at the LSE, and a member of the Bank of England's Monetary Policy Committee. He was a monetary adviser at the Bank of England from 1968-1985 and Chief Advisor from 1980. He taught at Cambridge and the LSE and has written extensively on monetary policy, history and institutions.

**Dr. Michael R. Hodges** was Director of the Centre for Research on the USA and Senior Lecturer in International Relations at the LSE. Formerly Professor of International Relations at Lehigh University, Bethlehem, Pennsylvania, he is the author of books on government/business relations, as well as "More Efficiency, Less Dignity: British Perspectives on the G7".

**Professor John J. Kirton** is Director of the G8 Research Group, Associate Professor of Political Science and Research Associate of the Centre for International Studies at the University of Toronto. He has advised the Canadian Government on G7 participation and international trade and sustainable development, and is the author and editor of many books and articles on international issues, especially on G7 summitry.

**Dr. Ella Kokotsis** is a Post-Doctoral Research Fellow at the Centre for International Studies, University of Toronto and Research Coordinator of the G8 Research Group. An expert on G8 Summit compliance, she served as a consultant to the Canadian Government's National Round Table on the Environment and the Economy in the lead-up to the 1995 G7 Summit.

**Professor Richard Layard** is Director of the LSE's Centre for Economic Performance. An expert on the problems of unemployment and inflation, he has advocated a "Welfare to Work" approach in a series of books and articles. Founder in 1985 of the Employment Policy Institute and Chairman, 1987-1992, he is an expert on skills and inequality and heads an advisory group for the Russian Government.

**Professor Alan Rugman** is Thames Water Fellow in Strategic Management at Templeton College, Oxford. Professor of International Business at the Universities of Toronto, 1987-1998, Dalhousie, 1979-1987, and Winnipeg, 1970-1978, he is author of numerous books and articles on multinational enterprises and trade and investment policy. He has been an adviser to the Canadian Government and a consultant to major companies.

**George Staple, QC** was Director of the United Kingdom's Serious Fraud Office from 1992 to 1997. A Partner at Clifford Chance from 1967 to 1992, he rejoined the partnership in 1997. He was Chairman of the Authorization and Disciplinary Tribunals of the Securities Association and the Securities and Futures Authority, 1987-1992 and a member of the Council of the Law Society and its Treasurer, 1989-1992.

**Ambassador Koji Watanabe** is Executive Advisor to the Japan Federation of Economic Organizations (Keidanren); Senior Fellow at the Japan Center for International Exchange; and Chairman of the Board of Governors of the Asia-Europe Foundation. As a Japanese diplomat, Ambassador to Russia, 1993-1996; to Italy, 1992-1993; Deputy Minister of Foreign Affairs, 1989-1992; and "Sherpa" for the 1990 and 1991 summits.

# Preface

This book is the product, most immediately of two conferences held in London, England on May 12<sup>th</sup> and 13<sup>th</sup>, 1998 immediately prior to the Group of Eight (G8) Birmingham Summit. The first conference, a scholarly symposium on "Explaining G8 Effectiveness", assembled six leading scholars of the G8 and its major issues to give papers, for discussion among themselves, their colleagues and students, of how and why the G8 succeeds as an effective international institution in dealing with the major issues of the day.

The second, a public policy conference entitled, "Jobs, Crime, Money: Challenges for the G8 in 1998", gathered 16 distinguished practitioners and scholars from Europe, North America and Asia. Its purpose was to assess the way in which the G8 could and should best address the global priorities of 1998.

This volume contains the extensively revised papers presented at the scholarly symposium, supplemented by selective contributions from the public policy conference. Yet within its chapters also lie the results of decades of reflection and analysis on G7/G8 and the global challenges it currently confronts, from those who have carefully examined these matters from the inside and from without.

To explore these challenges and the effectiveness of the G8 in dealing with them, this collection combines the talents of leading scholars and analysts of the G7/G8 from several disciplines and regions. Its contributors come from the disciplines of economics, management studies, the international political economy subfield of political science, law and from public service. Their combination in this volume provides a rich and unique synthesis of the contributions of the insights of academic scholars from several disciplines as enriched by those of distinguished policy practitioners of analytic repute.

The contributors to this volume are all senior figures from the three global regions represented in the G8: Europe, North America and Japan. Many have worked in two or more of the three G8 regions or have scholarly interests spanning them all. All authors come from leading universities in their countries, or major public or private sector institutions or are leading experts in their area.

No effort has been made to impose a single interpretive framework,

common point of view or artificial concluding consensus on the individual contributions. Rather the introduction outlines in full diversity and richness the wide ranging debate about the G8, the major forces at work in the world as the new millennium approaches, and the new issues and challenges this presents for the G8. The inclusion among the editors and authors of those with widely varying views on the G8 and from differing disciplinary perspectives ensures that this work will present a poignant and productive debate rather than a strained consensus.

Producing such a volume and the conferences that lay behind it required the exceptional contribution of many individuals. We owe much to Sir Nicholas Bayne, the master interpreter of the G7/G8, and one who served as a constant source of intellectual inspiration, practical support and sound judgement in moving this enterprise from an academic planning concept into an accomplished reality.

We are further grateful to other members of the G8 Research Group's Professional Advisory Council, who helped us with recruiting speakers, serving as speakers and providing insightful advice along the way. These include Robert C. Fauver, David Hale, Michael R. Hodges, Alan Rugman and Koji Watanabe.

We owe a particular debt to Robin Griffiths and his colleagues at Clifford Chance, who served as sponsors of the May 13<sup>th</sup> conference from which some of our material is drawn, provided facilities at their London office for our May 12<sup>th</sup> Scholarly Symposium, sponsored a dinner for our overseas speakers, and then prepared transcripts of the conference presentations that served as an essential tool in composing some of the chapters in this book. Robin's generosity, unflagging willingness to help and endless good cheer were a critical ingredient in making the conference and this volume possible.

We are also grateful to the superb conference team at Clifford Chance - led by Amanda Jenkins, Corinne Pearson-Evans, and Matthew Brown. They handled the often difficult logistics with exceptional efficiency. Jim Sigman, Colton Alton, and Tim Judy at Real Education in Denver, Colorado deserve thanks for their strong support in helping us enhance the educational experience of the summit. They designed and built an Internet-based seminar program to broadcast the conferences and other events to some 2000 students around the world.

Special praise must go to Steve Muddiman, Jolanta Pilecka, Ross Jardine and their staff at Hewlett Packard in the U.K. Their enthusiasm for our project and Hewlett Packard's leading-edge technical support provided

an invaluable backbone to our Internet program.

We further wish to express our gratitude to Maurice Fraser, who gave permission for us to use material from Richard Layard's contribution on, "Employability", in M. Fraser (ed.), *The G8 & the World Economy*, (London: Strategems Publishing Limited, 1998).

We also acknowledge with deep gratitude the enormous contribution of Paul Jacobelli, Co-ordinator of the G8 Research Group. It was his vision, entrepreneurship and perseverance that made our London symposium and conference possible, ensured their successful execution and helped to prepare this volume for publication. We also thank Jane Kim for the long hours of painstaking work required to format the text and charts in this book.

Among the many members of the G8 Research Group who contributed to making this volume and the supporting conferences a success, we wish to highlight the leadership and support of Peter Hajnal, Kunihiro Ito, Sian Meikle, Ella Kokotsis, Carla Angelone, Nancy Scott, Ivan Savic, Cindy Blazevic, Michael Youash, Gina Stephens, Sandra Larmour and Marc Lalonde.

Also of major importance in this effort was the support of colleagues from our partner institutions, notably Jonathan Aronson and Steve Lamy of the University of Southern California's School of International Affairs. We also thank our colleagues at Trinity College, the International Relations Program and the Centre for International Studies: Thomas Delworth, Robert Bothwell, Louis Pauly, Geoffrey Seaborn, Marilyn Laville and Mary Lynne Bratti. Finally, we are grateful to our editor at Ashgate, Kirstin Howgate, whose vision, good cheer and dedication sustained us through the process of converting raw text into a finished book.

On June 17, 1998, three weeks after our conference, Michael Hodges suddenly passed away at the age of 53. We are proud and grateful to have worked with him over the years in the G8 Research Group and on this conference and volume, which were very much his inspiration. His chapter in this volume is not the one he would have written, had he had the time to develop his initial thoughts before his untimely death. But it displays the freshness, insight and critical spirit that characterized his scholarship during a long and distinguished career. To honour his very real contribution and his memory, we have retained his name, as planned, as the lead co-editor of this volume. We dedicate it to him and to all that he stood for as a colleague and friend.

John J. Kirton, Joseph P. Daniels, October 1998



# List of Abbreviations

APEC	Asia Pacific Economic Cooperation
ASEM	Asia-Europe Meeting
BCCI	Bank of Credit and Commerce International
BIS	Bank for International Settlements
CEC	Commission for Environmental Cooperation (Montreal)
CLC	Canadian Labour Congress
COC	Council of Canadians
DFAIT	Department of Foreign Affairs and International Trade (Canada)
ECB	European Central Bank
EMU	European Monetary Union
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSRA	Fiscal Structural Reform Act (Japan)
FTA	Free Trade Agreement (Canada and U.S.)
FTAA	Free Trade Agreement of the Americas
FY	Fiscal Year
G3	Group of Three (Finance Ministers/Central Bank Governors - Japan, U.S., Germany)
G5	Group of Five (Finance Ministers)
G7	Group of Seven (Major Industrial Countries)
G8	Group of Eight (G7 with Russia)
G15	Group of Fifteen (Developing Countries)
G24	Group of Twenty-Four (Developing Countries within the IMF)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIS	Global Information Society
GNP	Gross National Product
HIPC	Heavily Indebted Poorest Countries
IBRD	International Bank of Reconstruction and Development (World Bank)
IMF	International Monetary Fund

IPE	International Political Economy
LDP	Liberal Democratic Party (Japan)
MAI	Multilateral Agreement on Investment
MPC	Monetary Policy Committee of the Bank of England
NAFTA	North America Free Trade Agreement
NATO	North Atlantic Treaty Organization
NGO	Non-governmental organization
OAS	Organization of American States
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
Qaud	Quadrilateral Trade Ministers Forum (Japan, Canada, U.S. and EU)
SFO	Serious Fraud Office
SIG	Support Implementation Group
SME	Small and Medium-Sized Enterprises
TNC	Transnational Corporations
U.N.	United Nations
U.S.	United States
U.S.S.R.	Union of the Soviet Socialists Republics
UK	United Kingdom
UNCED	United Nations Conference on Environment and Development
WHO	World Health Organization
WTO	World Trade Organization

# Contents

List of Tables	vii
List of Figures	viii
List of Contributors	ix
Preface	xi
List of Abbreviations	xiv

<b>INTRODUCTION</b>	<b>1</b>
---------------------	----------

- |   |   |   |
|---|---|---|
| 1 | The Role of the G8 in the New Millennium    | 3 |
|   | <i>John J. Kirton and Joseph P. Daniels</i> |   |

<b>PART I: EXPLAINING G8 EFFECTIVENESS</b>	<b>19</b>
--	-----------

- |   |  |    |
|---|--|----|
| 2 | Continuity and Leadership in an Age of Globalisation | 21 |
|   | <i>Nicholas Bayne</i>                                |    |
| 3 | Explaining G8 Effectiveness                          | 45 |
|   | <i>John J. Kirton</i>                                |    |
| 4 | The G8 and the New Political Economy                 | 69 |
|   | <i>Michael R. Hodges</i>                             |    |
| 5 | G8 Summits and Compliance                            | 75 |
|   | <i>Ella Kokotsis and Joseph P. Daniels</i>           |    |

<b>PART II: THE FINANCIAL CHALLENGES</b>	<b>93</b>
6 Japan's Summit Contributions and Economic Challenges <i>Koji Watanabe</i>	95
7 Supervising the International Financial System <i>Joseph P. Daniels</i>	107
8 Promoting Growth in the World Economy <i>Bronwyn Curtis</i>	119
9 Managing the Global Economy <i>Charles Goodhart</i>	135
 <b>PART III: THE BROADER CHALLENGES</b>	 <b>141</b>
10 Negotiating Multilateral Rules to Promote Investment <i>Alan Rugman</i>	143
11 Designing Effective Policies for Employment Creation <i>Richard Layard</i>	159
12 Combating Transnational Financial Crime <i>George Staple, QC</i>	169
 Bibliography	 181
Index	187

# List of Tables

1.1	Models of G7/8 Cooperation and Compliance	5
3.1	Participation in the G7 Summit, 1975-	47
3.2	The G7 Agenda, 1989-96	50
3.3	The G7's Microeconomic Agenda, 1988-96	50
3.4	The G7 System of Institutions	51
3.5	Ministers Involved in G7 Forums, 1975-	52
3.6	Co-operative Achievements of G7 Summits, 1988-97	54
3.7	Real GDP	57
3.8	Relative Capability of Major Powers in the International System, 1950-96	58
3.9	Merchandise Exports and Trade Openness, 1997	60
3.10	Official Aid Expenditures, 1993, 1997	61
3.11	Intra-G7 Exports, 1975, 1990, 1995	62
3.12	Intra-G7 FDI Stock, 1982-94	63
5.1	Average, Standard Deviation and Number of Scores for 1975-89 Economic Summit Undertakings	78
8.1	Investment Fund Manager Portfolios	131
10.1	FDI Between Canada and the U.S., 1980-96	154
11.1	Average Unemployment Rate, 1990s	160

# List of Figures

3.1	Inequality of Capability among G7 Powers, 1950-97	59
5.1	A Comparison of U.S. vs. Canadian Compliance with G7 Commitments, 1988-95	79
7.1	Net Private Capital Flows to Emerging Economies, 1990-96	109
8.1	Consumer Prices, 1970-98	120
8.2	Expected CPI in the UK	121
8.3	Average Swings in the 1972-78 and 1979-85 Cycles	122
8.4	National Shares in Post-EMU Economy	124
8.5	European GDP Growth	125
8.6	Financial Sector Indices on Mergers	128
8.7	Comparison of Retail Prices across Europe	129
8.8	Manufacturing and Service Indices, Rebased	130
8.9	Utility Sector Indices, Rebased	130
8.10	Public Debt and Pension Liabilities as a Percentage of GDP	131
11.1	Long-term Benefits and Long-term Unemployment, 1989-94	161
11.2	Percentage Change in the Labour Force and in Unemployment, 1960-95	162

# Introduction





# 1 The Role of the G8 in the New Millennium

JOHN J. KIRTON AND JOSEPH P. DANIELS

## Introduction

During the 1990s, the Group of Seven (G7) and now Group of Eight (G8), has attracted a rising crescendo of scholarly and policy criticism as it and the world have confronted a host of new issues and major transformations. The criticisms have centered on the apparent failure of the G7/8 to manage its core economic and financial agenda, to assist Russia in its democratic market transition and integration into the global economy, and to address the new transnational issues and pressures toward regionalism in the world. To many, these charges have acquired added force as the Asian financial crisis moves beyond its regional origins to create economic damage and instability everywhere. Further erosion in the credibility of the summit process will no doubt occur as Russia sits precariously on the verge of financial and even political collapse, as Europe reinforces its regional identity and strategy with the advent of the Euro, and as North America considers building on regional solutions through the North American Free Trade Agreement (NAFTA) in response (Bergsten, 1998; Malmgren, 1998; Hale, 1998).

Amidst such prevailing pessimism and uncertainty, this collection offers a more firmly grounded and optimistic assessment of the outlook for global governance as the transformed world of the new millennium rapidly approaches. It looks beyond the current criticism to examine the underlying transformations now underway in the G8 as an institution and in the world that it seeks to govern. It provides a critical, scholarly assessment of the G8's performance and prospects in addressing the issues that have moved from the domestic stage to the centre of the international agenda as the post cold war world of globalization and deepening integration gives way to the fully global system of the new millennium.

The collection explores the logic of the contemporary critics to offer improved explanations of the circumstances under which the G7/G8