file Overseas Development Council

O|D|C

MEMORANDUM

January 7, 1999

to: Melanne Verveer
from: Peter Sutherland and John Sewell
subject: A Global Economic Summit

This memo recommends that the First Lady take the lead in proposing the United States call for a "Globalization Summit" to be held in conjunction with the G-7/8 Summit in Cologne in June 1999. We believe such a Summit would move the issues with which the First Lady has been identified to a critical political level, by linking her people-oriented agenda to decisions on international policies necessary to ensure that globalization benefits both rich and poor.

Such a Summit on globalization would be one of the major achievements of the President's second term, and would stimulate intense discussions and activities among civil society organizations concerned with issues of globalization.

The Proposal

The Global Economic Summit would allow a representative group of heads of government to discuss the concrete actions necessary to ensure that the benefits of a global economy are realized for all countries and people. This meeting would provide high-level political guidance on how three critical challenges of human development can be addressed through multilateral cooperation: 1) the design of a new international financial "architecture" for growth and development; 2) a new agenda for further trade expansion; and 3) more effective measures to shield vulnerable countries and peoples from economic shocks and to ensure the benefits of economic progress were widely shared by all.

The Summit would:

> **1. allow political leaders to establish the principles and purpose that should guide future decisions, and to give high-level political direction for lower-level discussions and negotiations on policies to address the opportunities and problems posed by a global economy.**
>
> **2. widen the circle of international decision makers to include not only governments from the industrial countries, but also representatives from the other countries that must be involved in discussions of the future of the global economy—the emerging economies, and the poorer countries at risk of marginalization.**

The remainder of this memo spells out the rationale, agenda, design, and participation for a Summit.

Why A Heads of Government Summit?

It is crucial that the challenges and opportunities of globalization be addressed by heads of government, rather than ministers, for three reasons.

- **First, alone among national government officials, heads of government have responsibility over the full range of challenges and opportunities created by globalization.**

With strong mandates from their governments, ministers are capable of mounting effective responses to problems in their particular areas of responsibility. The proposals for reform of the international financial system produced by G-7 finance ministers and central bankers in October 1998, for example, were a creative step forward. But globalization has implications across a broad range of economic and social policies, including issues related to trade, finance, commerce, labor, gender, education, and social insurance systems, and few of these implications can successfully be addressed in isolation by ministers with limited portfolios. Heads of government are uniquely positioned to respond to the challenges and opportunities of globalization in a comprehensive and integrated manner.

- **Second, only heads of state can exercise the political leadership necessary to set the agenda and mobilize the resources that will be necessary to respond effectively to the challenges and opportunities of globalization.**

There is simply no substitute for the political leadership provided by heads of government. The prospect of high-level attention to a pressing set of international issues can capture the imagination of the global public and call into play an extraordinary amount of valuable research, analysis, and advocacy on the part of organized civil society. In the aftermath of such a meeting, commitments made by heads of state possess a degree of authority that guarantees continued public interest and increases the likelihood of successful implementation.

- **Third, domestic concerns now pose the largest threat to maximizing the opportunities opened up by a global economy.**

  Until recently, the gains from globalization were seen by many as outweighing the costs. Those attitudes are changing. Many in the emerging market countries are understandably alarmed by the extent to which participation in the global financial system has undermined their sense of economic security. In the industrial countries, the implicit social compact of the last fifty years has frayed as governments are unable or unwilling to support the social programs that have bolstered support for international economic liberalization for the last 50 years.

This growing sense of economic insecurity, together with the extraordinary social and economic costs of the crisis, has undermined confidence in the abilities of governments and institutions to cope with the forces of globalization. Leaders in the OECD countries in their own self-interest have to address the growing doubts in their own electorates and in other countries about whether growth based more than ever before on unfettered international trade and investment is desirable and should continue. If they do not, fears will grow among people in many countries that the costs outweigh the benefits. If that happens, electorates may turn to ill-conceived measures that will undermine the open international economic system that has served the world well.

Next Steps

If the USG takes the lead in this initiative, the timetable is critical and pressing. It would be easier to link a Global Economic Summit to a scheduled G-7 Summit simply because these meetings already are on the calendars of the major industrial countries. Setting a new and separate date could be very difficult.

The target of opportunity, therefore, is the 1999 Summit meeting in Cologne. But the Global Economic Summit should not be conceived as an expanded G-7 meeting; rather, it should be treated as a separate meeting, scheduled around the annual industrial-countries gathering.

The best place to start, therefore, is with the leaders of the European members of the G-7 to reach agreement that a Global Economic Summit should be on the agenda of an early meeting of the Sherpas (with, perhaps, Russia and the EU added) as they will have prime responsibility for the planning of the Cologne meeting.

The appendices that follow contain some ideas for the agenda, participation and process, and answers to the major objections to a Summit.

Appendix I: What Should be on the Agenda?

The agenda for the Summit is critical to its success. It must be crafted to take advantage both of the extraordinary nature of the event and of the stature of the participants. Heads of government should address issues on which only they can decide. This unique opportunity cannot be wasted on issues that finance, trade, or development ministers are equipped to negotiate. But striking the right balance will be difficult: while the agenda should not be too technical, it must still be substantive; and, it must put action-forcing questions or decisions before the participants.

Recent history may provide guidance on how to organize the agenda. In the immediate post-World War II period, leaders confronted the challenge of reconstructing the world's economic and political systems. Unlike the post-war leaders, participants in a Global Economic Summit do not confront an institutional clean slate; fortunately, we already have an extensive and generally effective system of well-led international institutions and agreements. We have less to invent, but we face questions about the character of the global economy just as critical and important as those confronted by the leaders of the 1940s. These questions relate to overarching principles, as well as to specific issues that need attention in the years ahead.

The overarching questions of principle that the Summit needs to address include:

1. The fundamental objectives of the international economic system, in particular, how key economic values—growth, stability, and equity—should be balanced;

2. The appropriate division of labor between national governments and international institutions, and between the public sector and the private sector, in managing the challenges of globalization;

3. The invention of new ground rules or mechanisms that will enable countries to shelter themselves temporarily from the pressures of globalization and protect important domestic values *without* undermining progress toward greater international economic liberalization;

4. The financing of new programs where needed, and new principles for sharing the costs among all countries. An assessment of the financing needs of existing multilateral institutions is especially urgent;

5. The missions and operations of the key international institutions, and the relationships between them. Are the mandates of the current institutions and arrangements adequate to meet the challenges of a global economy? Can they work together more closely to fill the gaps that otherwise would not be met by private activities, as well as to improve organizational coherence?

In light of these overarching issues of principle, Summit participants need to address three critical immediate policy priorities:

1. ***A New Financial Architecture for Stability and Growth***. The G-7 Finance Ministers already have agreed on a number of useful measures to deal with the current financial crises. The obvious next step is to propose further reforms of the existing institutions and policies, not only to deal with the next crises (which are inevitable), but also with the longer-term issues of promoting growth and development.

This discussion would cover longer-term finance issues, the measures that will be necessary to ensure the flow of private capital in the medium and the longer term, and how the existing institutions can use their resources to ensure that private capital continues to play an expanding role in financing of development.

Given the demonstrated promise, but persistent volatility, of private capital flows, a strategy for financing the development of the world's poorest nations also should be a high priority, including the role of Official Development Assistance.

2. ***An Agenda for Sustainable Trade Expansion.*** A major WTO ministerial meeting is already scheduled for 1999, but there is no broad agreement on the issues that should be on the agenda. In fact, there is a growing concern in some countries outside the OECD that liberalization has gone too fast, and that the results of the last round of negotiations have not yet been absorbed.

It will be particularly important, therefore, for the Summit to consider the scope and goals of the next negotiations to liberalize trade. A discussion of how to manage the relationships between trade expansion and the "new" trade issues, particularly promoting social and environmental standards, would be particularly useful. Similarly, the appropriate scope and venue for negotiations on investment issues also need to be addressed. Special measures for the poorer countries that face the risk of marginalization must be on the agenda.

3. ***Protecting Vulnerable Countries and People***. Over the last five decades, the existing international system of open and free flows of goods and capital was made politically acceptable by the existence of domestic social welfare systems and "safety nets" within industrial economies and even some emerging economies.

There is a growing realization that one of the impacts of globalization is that national governments acting alone can no longer sustain their domestic social compact. Instead, these issues are going to have to be dealt with on a multilateral level. One of the critical functions of the international system will be to help governments better manage the insecurity and volatility associated with globalization.

This issue is perhaps one of the most difficult, if only because it is new. Leaders will need to discuss new international understandings that allow governments space to develop their own responses to globalization. As no two countries are likely to adopt the same approach, new ground rules will be needed to accommodate those differences.

More directly, serious discussion is needed of the **international** social safety net function and how the existing international institutions can be utilized in this regard.

Appendix II: The Meeting Design and Participation

The Summit would bring together heads of government from a representative group of countries from among the G-7/8, the emerging economies, and the low-income countries. The meeting would not be a formal negotiating session, and would not replace or supersede any existing forum. The overall goal would be to identify areas of common concern, and to discuss the best ways to jointly respond. There would be no commitment to subsequent meetings, unless at the end of this meeting the participants felt additional meetings would be useful.

The **process** of developing the agenda will be important. It would have to be worked out in advance through a series of preparatory meetings among the participating countries leading to the Summit as the culmination of the process. It would facilitate this process if each participating government would name a high-level official who would be the leader's personal representative.

Clearly, **the selection of participating countries will be one of the most difficult questions** in preparing the Summit. The Summit must at the same time be **small** and **representative**. Two dozen leaders would perhaps be an ideal size for such a meeting; large enough to allow broad international participation, but not too large to prevent genuine give and take. It may also be useful to involve the heads of the World Bank, the IMF, the WTO, and the United Nations to provide their views.

There are many selection formulas that could be followed; none is perfect. One promising strategy would be to follow the existing representation formulas used in the Bretton Woods institutions—for instance, the memberships of the IBRD/IMF Interim and Development Committees. The members of these committees include almost all the major powers, plus constituency representation for smaller countries.

No matter what the model, participants would have to represent most of the major industrialized countries; the newly-industrialized or emerging market economies; and the poorest countries threatened with marginalization. It also would be important to ensure that all regions of the world (Africa, Middle East, Asia-Pacific, Latin America and the Caribbean, North America, and Europe) participated.

Appendix III The Objections

Inevitably, a number of objections will be raised to this proposal, particularly in the industrial countries. They include: that a Summit would raise expectations prematurely at a time when there is little consensus on the issues; that existing forums and institutions are adequate, and "everybody meets all the time"; that no progress can be made unless the G-7 are in agreement; that it runs a high risk of being just another "gab-fest"; and that in some countries it will be seen by voters as a diversion from serious domestic problems.

There are, however, a number of good and compelling responses to these:

1. **Ad hoc responses to crises are increasingly costly.** The Asian crisis underscores the reality that the globalization of the international economy means that even the most successful countries are vulnerable to mistakes and misjudgements, and can fall prey to market forces. But ad hoc responses consume vast amounts of the scarce time of high-level officials, and run the risk of a growing domestic political backlash fueled by demagogic cries of "give aways" and "bailouts."

2. **Ad hoc responses make it difficult to engage all necessary policy instruments**. As long as responses are ad hoc, it is difficult to bring into play all of the institutions critical to longer-term solutions to key problems. For example, it would be desirable to link financial responses to the current crisis with policies and institutions dealing with trade and development, but these are not easily dealt with in financial fora.

3. **The "new actors" in the emerging industrial economies have to be brought in as full partners in discussions of global issues**. These countries, which do not now participate in G-7 discussions, are critical participants, both in discussions of the problems and their solutions. In particular, they must be part of new arrangements for some form of expanded burden-sharing in more than just the financial sense. For instance, if markets in the OECD countries are to remain open to the exports of emerging economies in the face of growing domestic political opposition, there will need to be high-level agreement on a core set of labor standards flexibly keyed to the situations of individual countries, and a similar pact on environmental protection, related to expanding markets for trade and investment.

4. **There are issues in which the G-7 have major longer-term interests at stake for which there are no existing institutions or arrangements**. Environmental protection and the promotion of international health are currently two of the most critical challenges. The existing institutions and arrangements in the environmental field are weak and incoherent. In health, there is no consensus on how to reform the international health system, and how to agree on a division of labor between the WHO and the ten or more multilateral agencies that have global health programs.

5. **<u>The G-7 have a major long-term interest in addressing the problems of marginalization and poverty</u>.** The increasing disparities among and within countries may be one of the most intractable challenges of globalization. The longer-term costs to the industrial and emerging economies will be considerable: markets may not expand as much as they should; environmental deterioration will accelerate; violence and conflict will be exacerbated; and pressures for greater migration will increase. Eliminating absolute poverty (a goal quite achievable in the next 2-3 decades) is not only a moral imperative, but also is in the interest of all countries.

On balance, therefore, the benefits that could come from a Global Economic Summit outweigh any possible costs.

file Overseas
Development
Council

Nancy Rubin
3035 Chain Bridge Road
Washington, DC 20016

December 3, 1998

The First Lady
Hillary Rodham Clinton
The White House
Washington, DC 20500

Melanne Verveer
Chief of Staff to the First Lady
Office of the First Lady

Shirley Sagawa
Deputy Chief of Staff to the First Lady
Office of the First Lady

First, my great thanks for facilitating the December 10th event (for the 50th anniversary of the Universal Declaration of Human Rights).

Second, John Sewell, President of the Overseas Development Council (ODC), would like the First Lady to chair a summit on the challenges of globalization.

Briefly, ODC is an international policy research institution that seeks to improve decision making on multilateral cooperation, to promote more effective and equitable development, and to foster better management of related global problems.

A representative group of leaders from the industrial countries, the emerging economies, and the countries at risk of marginalization would be invited to discuss globalization. The overall goal would be to identify areas of common concern, and to jointly respond to its challenges. The aim would be to improve overall policy coherence.

The Summit proposal has already received considerable attention. The media coverage is included in the attached document, along with the longer descriptions for the Summit proposal. The idea has been echoed by a number of others, most notably Michel Camdessus, the Managing Director of the IMF. The Summit has been endorsed by President Cardoso of Brazil, and I understand the Australian government made a similar proposal at the recent APEC meeting. This idea has been discussed with officials in other governments as well.

ODC has been hosting a series of off-the-record discussions among officials and stakeholders in order to facilitate decisions on issues on the current agenda. The most recent efforts addressed issues of international health cooperation and the funding of multilateral concessional lending. Participants have included high government officials from a number of governments, corporations, nongovernmental organizations, as well as issue experts. In addition, ODC, along with its important policy research, has a longstanding record of convening major public conferences around important policy issues. The proposed Globalization Summit, however, would be a **governmental meeting**.

ODC's board is international. It is chaired by Peter Sutherland, the former head of the GATT and the first Director of the WTO, who is now the Chairman of Goldman Sachs International and co-chair of BP-Amoco. The board includes Pedro Aspe, the former Finance Minister of Mexico, Kwesi Botchwey, the recent Finance Minister of Ghana, Margaret Catley-Carlson of Canada, who heads the Population Council, and Dr. Mari Pangestu, head of Indonesia's major private think tank. Among the American members are Tony Lake, Don McHenry, and Rev. Bryan Hehir of Catholic Relief Services. A Board list is attached.

John would very much appreciate having a meeting with you. Could one of you let me know if and when this could be arranged?

Much appreciation,

Nancy

Nancy

Attachments: board list, proposal, press clips

ODC BOARD OF DIRECTORS

MEMORANDUM

November 13, 1998

O | D | C

Not for Circulation

to: [Head of State/Government]
from: Peter D. Sutherland
subject: A Globalization Summit

This memo proposes that [country] take the lead in convening a "Globalization Summit" before the end of 1999.

The Proposal

The Summit meeting would allow a globally representative heads of government to discuss the concrete actions necessary to ensure that the immense benefits of a global economy are realized for all countries and people. The emergence of a global economy has brought immense benefits; but it also has brought costs. The current financial crisis demonstrates that these challenges must be addressed in a comprehensive manner. If they are not, fears will grow among people in many countries that the costs outweigh the benefits. If that happens, electorates may turn to ill-conceived measures that will undermine the open international economic system that has served the world well.

The Summit, which should take place in 1999, would provide high-level political guidance on how three critical challenges can be addressed through multilateral cooperation: 1) the design of a new international financial "architecture"; 2) a new agenda for further trade expansion; and 3) more effective measures for protecting vulnerable countries and peoples from economic shocks.

A Global Economic Summit would have two aims:

> **1. to allow political leaders to establish the principles and purposes that should guide future decisions, and to give high-level political direction for lower-level discussions and negotiations on policies to address the opportunities and problems posed by a global economy.**

2. to widen the circle of international decision makers to include not only governments from the industrial countries, but also the emerging economies, and the poorer countries at risk of marginalization that are now key actors.

Why A Heads of Government Summit?

Globalization has raised living standards for many, but its dynamism has made life more difficult for those dislocated by change, and it also threatens to leave a significant part of the world behind.

Until recently, the gains from globalization were seen by many as outweighing the costs. Those attitudes are changing. Many in the emerging market countries are understandably alarmed by the extent to which participation in the global financial system has undermined their sense of economic security. In the industrial countries, the implicit social compact of the last fifty years has frayed as governments are unable or unwilling to support the social programs that have bolstered support for international economic liberalization.

This growing sense of lost autonomy and economic insecurity, together with the extraordinary social and economic costs of the crisis, has undermined confidence in the abilities of governments and institutions to cope with the forces of globalization. Leaders in the OECD countries in their own self-interest have to address the growing doubts in their own electorates and in other countries about whether growth based more than ever before on unfettered international trade and investment is desirable and should continue.

It is crucial that the challenges and opportunities of globalization be addressed by heads of government, rather than ministers, for two reasons.

First, alone among national government officials, heads of government have responsibility over the full range of challenges and opportunities posed by globalization.

With strong mandates from their governments, ministers are capable of mounting effective responses to problems in their particular areas of responsibility. The proposals for reform of the international financial system produced by G-7 finance ministers and central bankers in October 1998, for example, were a creative step forward. But globalization has implications across a broad range of economic and social policy, including issues related to trade, finance, commerce, labor, and social insurance systems, and few of these implications can successfully be addressed in isolation by ministers with limited portfolios. Heads of government are uniquely positioned to respond to the challenges and opportunities of globalization in a comprehensive and integrated manner.

Second, only heads of state can exercise the political leadership necessary to set the agenda and mobilize the resources that will be necessary to respond effectively to the challenges and opportunities of globalization.

There is simply no substitute for the political leadership provided by heads of government. As the 1992 Earth Summit demonstrated, the mere promise of high-level attention to a pressing set of international issues can capture the imagination of the global public and call into play an extraordinary amount of valuable research, analysis, and advocacy on the part of organized civil society. In the aftermath of such a meeting, commitments made by heads of state possess a degree of authority that guarantees continued public interest and increases the likelihood of successful implementation.

What Should be on the Agenda?

The agenda for the Summit is critical to its success. It must be crafted to take advantage both of the extraordinary nature of the event and of the stature of the participants. Heads of government should address issues on which only they can decide. This unique opportunity cannot not be wasted on issues that finance, trade, or development ministers are equipped to negotiate. But striking the right balance will be difficult: while the agenda should not be too technical, it must still be substantive; and, it must put action-forcing questions or decisions before the participants.

Recent history may provide guidance on how to organize the agenda. In the immediate post-World War II period, leaders confronted the challenge of reconstructing the world's economic and political systems. Unlike the post-war leaders, participants in a Globalization Summit do not confront an institutional clean slate; fortunately, we already have an extensive and generally effective system of well-led international institutions and agreements. We have less to invent, but we face questions about the character of the global economy just as critical and important as those confronted by the leaders of the 1940s. These questions relate to overarching principles, as well as to specific issues that need attention in the years ahead.

The overarching questions of principle that the Summit needs to address include:

1. The fundamental objectives of the international economic system, in particular, how key economic values—growth, stability, and equity—should be balanced;

2. The appropriate division of labor between national governments and international institutions, and between the public sector and the private sector, in managing the challenges of globalization;

3. The invention of new ground rules or mechanisms that will enable countries to shelter themselves temporarily from the pressures of globalization and protect important domestic values *without* undermining progress toward greater international economic liberalization;

4. The financing of new programs where needed, and new principles for sharing the costs among all countries. An assessment of the financing needs of existing multilateral institutions is especially urgent;

5. The adequacy of the missions and operations of the key international institutions, and the relationships between them. Are the current institutions and arrangements adequate to meet the challenges of a global economy? Can they work together more closely to fill the gaps that otherwise would not be met by private activities, as well as to improve organizational coherence?

In addition to these overarching issues of principle, Summit participants need to address three critical policy priorities:

1. **A New Financial Architecture for Stability and Growth**: The G-7 Finance Ministers already have agreed on a number of useful measures to deal with the current financial crises. The obvious next step is to propose further reforms of the existing institutions and policies, not only to deal with the next crises (which are inevitable), but also with the longer-term issues of promoting growth and development.

This discussion would cover longer-term finance issues, the measures that will be necessary to ensure the flow of private capital in the medium and the longer term, and how the existing institutions can use their resources to ensure that private capital continues to play an expanding role in financing of development.

Given the demonstrated promise, but persistent volatility, of private capital flows, a strategy for financing the development of the world's poorest nations should be a high priority, including the role of Official Development Assistance.

2. **An Agenda for Sustainable Trade Expansion.** A major WTO ministerial meeting is already scheduled for 1999, but there is no broad agreement on the issues that should be on the agenda. In fact, there is a growing concern in some countries outside the OECD that liberalization has gone too fast, and that the results of the last round of negotiations have not yet been absorbed.

It will be particularly important, therefore, for the Summit to consider the scope and goals of the next negotiations to liberalize trade. A discussion of how to manage the relationships between trade expansion and the "new" trade issues, particularly promoting social and environmental standards, would be particularly useful. Similarly, the appropriate scope and venue for negotiations on investment issues also need to be addressed. Special measures for the poorer countries that face the risk of marginalization must be on the agenda.

3. **Protecting Vulnerable Countries and People**: Over the last five decades, the existing international system of open and free flows of goods and capital was made politically acceptable by the existence of domestic social welfare systems and "safety nets" within industrial economies and even some emerging economies.

There is a growing realization that one of the impacts of globalization is that national governments acting alone can no longer sustain their domestic social compact. Instead, these issues are going to have to be dealt with on a multilateral level. One of the critical functions of the international system will be to help governments better manage the insecurity and volatility associated with globalization.

This issue is perhaps one of the most difficult, if only because it is new. Leaders will need to discuss new international understandings that give governments space to develop their own responses to globalization. As no two countries are likely to adopt the same approach, new ground rules will be needed to accommodate those differences.

More directly, serious discussion is needed of the **international** social safety net function and how the existing international institutions can be utilized in this regard.

The Meeting Design

The Summit would bring together heads of government from a representative group of countries from among the G-7/8, the emerging economies, and the low-income countries. The meeting would not be a formal negotiating session, and would not replace or supersede any existing forum. The overall goal would be to identify areas of common concern, and to discuss the best ways to jointly respond. There would be no commitment to subsequent meetings, unless at the end of this meeting the participants feel additional meetings would be useful.

The **process** of developing the agenda also will be important. It would have to be worked out in advance through a series of preparatory meetings among the participating countries leading to the Summit as the culmination of the process. It would facilitate this process if each participating government would name a high-level official who would be the leader's personal representative.

Working together, these personal representatives would set the agenda and arrange the preparation of the background documents. To facilitate their work, it might be useful to name a group of 'wise persons" chosen by participating governments to provide background for the discussions and to suggest how the issues should be framed. This device has been used successfully before, most notably in the APEC context.

Who Should Participate?

Clearly, the selection of participating countries will be one of the most difficult questions in preparing the Summit. The Summit must at the same time be **small** and **representative**. Two dozen leaders would perhaps be an ideal size for such a meeting; large enough to allow broad international participation, but not too large to prevent genuine give and take. It may also be useful to include the heads of the World Bank, the IMF, the WTO, and the United Nations.

There are many selection formulas that could be followed; none is perfect. One promising strategy would be to follow the existing representation formulas used in the Bretton Woods institutions—for instance, the memberships of the IBRD/IMF Interim and Development Committees. The members of these committees include almost all the major powers, plus constituency representation for smaller countries.

No matter what the model, participants would have to represent most of the major industrialized countries; the newly-industrialized or emerging market economies; and the poorest countries threatened with marginalization. It also would be important to ensure that all five regions of the world (Africa, Asia-Pacific, Latin America and the Caribbean, North America, and Europe) participated.

The Objections

Inevitably, a number of objections will be raised to this proposal, particularly in the industrial countries. They include: that a Summit would raise expectations prematurely at a time when there is little consensus on the issues; that existing forums and institutions are adequate, and "everybody meets all the time"; that no progress can be made unless the G-7 are in agreement; that it runs a high risk of being just another "gab-fest"; and that in some countries it will be seen by voters as a diversion from serious domestic problems.

There are, however, a number of good and compelling responses to these:

1. **Ad hoc responses to crises are increasingly costly.** The Asian crisis underscores the reality that the globalization of the international economy means that even the most successful countries are vulnerable to mistakes and misjudgements, and can fall prey to market forces. But ad hoc responses consume vast amounts of the scarce time of high-level officials, and run the risk of a growing domestic political backlash fueled by demagogic cries of "give aways" and "bailouts."

2. **Ad hoc responses make it difficult to engage all necessary policy instruments**. As long as responses are ad hoc, it is difficult to bring into play all of the institutions critical to longer-term solutions to key problems. For example, it would be desirable to link financial responses to the current crisis with policies and institutions dealing with trade and development, but these are not easily dealt with in financial fora.

3. **The "new actors" in the emerging industrial economies have to be brought in as full partners in discussions of global issues**. These countries, which do not now participate in G-7 discussions, are critical participants, both in discussions of the problems and their solutions. In particular, they must be part of new arrangements for some form of expanded burden-sharing in more than just the financial sense. For instance, if markets in the OECD countries are to remain open to the exports of emerging economies in the face of growing domestic political opposition, there will need to be high-level agreement on a core set of labor standards flexibly keyed to the situations of individual countries, and a similar pact on environmental protection, related to expanding markets for trade and investment.

4. **There are issues in which the G-7 have major longer-term interests at stake for which there are no existing institutions or arrangements**. Environmental protection and the promotion of international health are currently two of the most critical challenges. The existing institutions and arrangements in the environmental field are weak and incoherent. In health, there is no consensus on how to reform the international health system, and how to agree on a division of labor between the WHO and the ten or more multilateral agencies that have global health programs.

5. **The G-7 have a major long-term interest in addressing the problems of marginalization and poverty.** The increasing disparities among and within countries may be one of the most intractable challenges of globalization. The longer-term costs to the

industrial and emerging economies will be considerable: markets may not expand as much as they should; environmental deterioration will accelerate; violence and conflict will be exacerbated. Eliminating absolute poverty (a goal quite achievable in the next 2-3 decades) is not only a moral imperative, but also is in the interest of all countries.

Next Steps

If the [country] government is to take the lead on this initiative, the timetable is critical and pressing. It would be easier to link a Summit on Globalization to a scheduled G-7 Summit simply because these meetings already are on the calendars of the major industrial countries. Setting a new and separate date could be very difficult.

The target of opportunity, therefore, is the 1999 Summit meeting scheduled for June in Cologne. But the Globalization Summit should not be conceived as an expanded G-7 meeting; rather it should be treated as a separate meeting, scheduled around (and preferably before) the annual industrial-country gathering.

This means that the urgent next task to is to identify three other governments that would join the government of [country] in calling for such a meeting.