

# **Growth and Responsibility - Leitmotif for Germany's G8**

## **Presidency**

**On 1 January 2007 Germany assumed the presidency of the eight leading industrialized nations. This is its fifth G8 Presidency. The highlight of the one-year presidency will be the Summit of heads of state and government on 6 - 8 June 2007 at the Baltic Sea resort of Heiligendamm. With the Leitmotif "Growth and Responsibility", Chancellor Merkel is directing the focus of the G8 in 2007 on key global challenges: the world economy as well as Africa's economic, political, and social development. An important goal in this aspect is to take account of the major shifts in the world economy brought about by the rise of the newly industrialized economies, also within the system of global governance. The summit is being prepared by State Secretary Dr. Bernd Pfaffenbach of the Federal Ministry of Economics and Technology, the so-called "Sherpa" of the German Chancellor.**

## **The Global Economy with New Players**

In the past 15 years the global economy has seen decisive changes as the result of technological revolutions and the emergence of new, strong players. The pace and the dynamics of the world economy have increased and competition has become toughened and become more intensive. As in the world of sports, new, first-class talents have already risen to the top ranks or are about to emerge from the second and third tiers. And the older professionals now have to return to the basics, focus again on their inherent strengths, and stake out their place in the competition.

The good news is that the responsibility for vitality and economic development can now be borne on more shoulders than before. This benefits the world economy in general. High and sustained growth rates of the global economy benefit both industrial and developing countries. But the challenging aspect of the new situation is that, as Chancellor Merkel stressed in her remarks at the opening of this year's World Economic Forum in Davos: "Old habits, perquisites, and inherited rights no longer guarantee success. The old hierarchies are being flattened. As the American journalist Thomas Friedman has said, "the world is flat". Resources, potentials, and power can shift completely overnight."

This raises questions of central importance: Have the rules of play also evolved in order to keep pace with these developments? Are the framework conditions still able to take account of the new dynamics? Do the institutions still adequately reflect the new situation? The German G8 Presidency wants to work together with its G8 partners to provide answers to these questions and to develop solutions.

The tectonic shifts in the global economy originate, in particular, in the dynamic economies of Asia, Latin America, and Eastern Europe. Their catching-up process is creating a multi-polar world economy. One example is the rise of China. While the country's share of global GDP in 1990 was 5.7%, this figure reached 15.4% as early as 2005 and it will continue to rise. The IMF expects that, by 2015, China will outpace Europe in terms of its share of global GDP, with China accounting for 19% and Europe for 17%. In 2005 China already replaced Japan as the world's third largest merchandise exporter, and it will not be long before China will also replace Germany and the United States at the top of the list of merchandise exporting nations.

The emerging economies are also in the lead in terms of labor supply. The Chinese and Indian economies alone are supported in their rapid development process by a labor force of some 1.211 billion persons. Population trends continue to feed this potential. In 2010, there will be an annual influx into the labor market of an additional 71 million persons in India, 44 million in China, and 10 million in the US. In the EU the figure will be less than one million.

A growing number of voices call for action to cope with these developments. The demand for protectionist measures is often heard, with demands for restricting free trade, freedom of investment or free capital movements. German Chancellor Angela Merkel clearly renounced protectionism in Davos: "My short and clear answer is 'No!'. I'm firmly convinced that the process of globalization is one of liberalization because, as Benjamin Franklin, one of America's founding fathers, once said, 'those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety.'"

In this spirit, the German G8 Presidency wants the Heiligendamm Summit to send a clear signal for a liberal and open global economic system. As we know, not least since the World Soccer Championships, there are parallels here, too, with sports: games are won by the offense not by the defense.

But an open and liberal world economic system does not mean that policymakers can ignore the consequences of globalization. And Chancellor Merkel therefore emphasized at Davos that globalization must be shaped in a manner that ensures that it is fair. Globalization will bring prosperity to people in all countries only if fair rules are agreed upon and observed. And in this context, it is the large multinational companies that bear a particularly large share of responsibility.

## **Further Developing Global Governance - Politically Shaping the World Economy**

No real solutions to problems facing the world economy can be developed without including the emerging economies in the effort. As a unit that combines the activities of the leading industrial nations, the G8 has a good basis for engaging in a dialogue with countries such as China, India, and Brazil to find new answers to global political and global economic questions. Chancellor Merkel therefore decided to invite Brazil, China, India, Mexico, and South Africa once again to the G8's outreach at Heiligendamm and to meet with the G8 on June 8.

Against this background, the motto of Germany's Summit Agenda, "Growth and Responsibility in the Global Economy" concerns not only the role of the G8 in shaping global economic relations but underlines the fact that, with their greater weight in the world economy, the emerging economies also bear greater responsibility for global issues. Germany wants to use its G8 Presidency to acknowledge the larger role of these emerging economies and more closely integrate them into global governance.

The 2007 G8 Summit seeks to generate impulses for a better integration of the emerging economies into the political shaping of the framework conditions for the global economy. We want to initiate new forms of dialogue in a formalized and structured manner. The political impulses from Heiligendamm are then to be continued in a structured manner as individual topics in other international organizations and forums (Heiligendamm Process).

Under the motto "Growth and Responsibility," the German G8 Presidency 2007 sets a clear focus on the world economy; in addition, account is to be taken of the G8's global responsibility in the form of the development policy focus on Africa. There are thus two focal areas:

- **"Growth and Responsibility in the Global Economy - Investment, Innovation, Sustainability"**
- **"Growth and Responsibility in Africa - Good Governance, Sustainable Investment, Peace and Security, and the Fight against HIV/AIDS."**

## **Growth and Responsibility in the Global Economy**

As part of its G8 Presidency, Germany wants to take account of the changing framework conditions in the global economy above all in the following seven focal areas:

- *Global Imbalances and Agenda for Global Growth*: The world economy is in relatively good shape. In terms of rectifying the global imbalances, major steps - for example with the structural reforms in Europe - have been undertaken toward more balanced growth worldwide. But the remaining risks must be further reduced. Signs of global economic imbalances are, for example, the United States' current account deficit, fast growing currency reserves in Asia, (above all in China at the present amount of 1000 billion US dollars), and immense current account surpluses in Japan, China, parts of Europe, and in a number of petroleum exporting countries. They reveal the interdependencies between the industrialized and developing countries and they lay bare the associated risks. The partial integration of China in the process of the G7/G8 finance ministers in 2007 already takes account of the fact that approaches to solving the problems cannot be developed exclusively within the G8 circle. With an *Agenda for Global Growth* we want, together with our partners, to highlight the success made thus far and point the way to reducing global imbalances on the basis of the G7/G8 strategy that has been followed to date.
- *Promotion and Protection of Innovation*: Innovation is the key to competitiveness for highly developed economies. This increasingly also applies in those emerging economies that are developing clearly focused innovation strategies. At the same time, a worldwide redistribution of global R&D potentials is clearly visible. We therefore want to collaborate in drafting a "Research Agenda for the next Decade to concentrate our strengths and exploit our synergies. At the same time, we want to provide more effective protection for innovative accomplishments by strengthening the protection of intellectual property. In this context we want not only to curb the offering of fraudulent products and trademark piracy. We must also significantly reduce the demand for such products. And merchants have a particularly important role to play here. Moreover, we want to initiate a structured and formalized dialogue with the emerging economies on the implementation difficulties and possibilities for improving the international system

in terms of the protection of intellectual property. It is ultimately a question of agreeing in the G8 on specific measures that can be immediately implemented for the protection of intellectual property, e.g. the linking our customs authorities together within a network by new information systems supported by data processing.

- *Investment:* The global total of foreign direct investment has risen to nearly 10 trillion US dollars. This roughly corresponds to a quarter of world GDP. Worldwide cross-border direct investments have increased over the past twenty years by an annual rate of about 14 % while world exports have increased by only just under 9.6 %. Around a third of cross-border direct investment is flowing to the newly emerging economies and to developing countries. The strong growth of the world economy derives from liberal provisions for investments in most of the world's economies. However, there has recently also been a critical trend towards a new "investment protectionism." According to studies by UNCTAD (United Nations Conference on Trade and Development), nearly all measures taken and provisions made in the investment sector during the nineties aimed at liberalization. There has been a clear trend reversal in recent years: the share of protectionist measures and rules has risen massively and amounted to 20 % in 2005. Germany therefore wants the G8 to send a clear signal for open investment regimes. A key role will be played here by definitions of exemptions from investment freedom, e.g. national security interests, the question of strategic industries, and the specifics of investments by public or state-owned enterprises. Proceeding from a commitment of the G8 to the freedom of movement of capital and investments, the German G8 Presidency wants to work towards achieving equal competitive conditions for all investors in the industrial and emerging economies. In the case of investments in advanced emerging countries, companies from the G8 countries should enjoy the same investment conditions as companies from these countries enjoy when investing in the G8 countries. Furthermore, questions of the absorptive capacities of the developing countries for foreign direct investment are relevant.
- *Transparency of the International Capital Markets (Hedge Funds):* In the context of cross-border investments, attention will also be focused on improving the transparency and systemic stability of financial markets, above all with an eye to hedge funds. The goal here will be, as was emphasized by Chancellor Merkel in Davos, to minimize the

systemic risks (risks to the functioning of the worldwide financial system in general) and increase transparency on the financial markets.

- *Social Shaping of Globalization*: Open markets, however, need the greatest possible participation of private individuals in international growth and prosperity, as well as the associated political acceptance. The G8 countries bear a particularly large share of responsibility in socially shaping the globalization process. Among the possible instruments in this regard are, for example, the observance and strengthening of minimum standards (core labor standards), intensification of the social dialogue, and the fostering and propagation of corporate social responsibility. The further development of social security systems, also in emerging economies, is important for shaping the rapid industrialization process in a manner that is socially responsible.
- *Climate Protection*: The accelerating climate change and the world's constantly increasing energy needs confront the world with enormous challenges. According to the IEA (International Energy Agency), the world already consumes twice as much energy as at the beginning of the 1970s. By 2030 the level of consumption will rise again by one-half. At the same time, the IEA estimates that energy-induced CO<sub>2</sub> emissions will increase by 55 % during that period. As of 2010 the large emerging economies will be replacing the OECD countries as the largest emitters in this regard. Climate change requires concerted action by the international community. The G8 Summit in Heiligendamm will therefore seek to generate an impulse for a worldwide climate protection agreement for the time after 2012. The G8 topic "energy efficiency" has the potential to bridge the internationally differing approaches. The negotiations for an international climate protection agreement will begin at the end of 2007 (3 - 14 December 2007 in Bali) and should be concluded by the end of 2009 so that a follow-up regime can enter into force in time after 2012. Alongside international climate protection negotiations, topics such as adaptation to climate change and the avoidance of de-forestation will be included in the G8 process.
- *Energy Efficiency*: The worldwide improvement of energy efficiency is the most sustainable and cheapest way to lower greenhouse gas emissions and, at the same time, to increase energy supply security. For this reason, the focus in the field of energy will be placed on energy efficiency. This will avoid duplicating the results of Gleneagles

(2005) and St. Petersburg (2006) (security of energy supply) and anticipating the Japanese G8 Presidency (Gleneagles follow-up). We will focus on the areas of particular relevance for climate protection: buildings (sustainable buildings), transport (including innovative propulsion systems and alternative fuels), and power stations (clean fossil fuels). Above all, we want the G8 to highlight the goals we seek to achieve through concrete commitments and national measures. To enhance energy efficiency worldwide, increased technological collaboration with the large emerging economies is also to be proposed. As concrete results in the field of power station technology we seek the worldwide upgrading of operating efficiencies through innovation and greater international technology cooperation, as well as the promotion of highly innovative power station technologies (carbon sequestration and storage).

- *Raw Materials:* The future availability of raw materials is currently of great importance owing to the strong increase in demand, also by the emerging economies. Industrial and newly industrial countries have a special interest in and bear a great deal of responsibility for ensuring that the world's resource wealth is used responsibly in order to make an effective contribution to the development process. At Heiligendamm, we therefore intend to continue to foster transparency in the raw materials sector. In concrete terms, we will work to strengthen the Extractive Industries Transparency Initiative (EITI) and embark on new ways to certify raw materials.

## **Growth and Responsibility in Africa**

Africa is facing particularly large challenges. Although average economic growth in Africa exceeds 5 %, half of the continent's population lives at poverty levels. There are more than three million new HIV/AIDS infections every year. The average life expectancy south of the Sahara is only 46 years.

The fight against poverty has always been a prime concern of the G8. At the 1999 Cologne Summit, debt relief for the poorest of the poor was an important step. At Gleneagles in 2005 further steps were undertaken with the multilateral debt relief and with additional financial commitments that the European Union specified in the form of the Official Development Assistance (ODA) Graduated Plan.

But the German G8 Presidency believes that official assistance and debt forgiveness will not alone suffice to help us attain the millennium development objectives in Africa. To do so, economic growth and investment, independent responsibility, and reform processes in Africa are important prerequisites. With the adoption of the Africa Action Plan at the 2002 Kananaskis Summit in Canada, the G8 committed themselves to supporting the African reform process in the spirit of NEPAD (New Partnership for Africa's Development). Germany wants to re-initiate the reform partnership and the dialogue with the African partners.

We see, in particular, four fields of action for intensifying and continuing the G8's partnership with Africa.

- *Good Governance*: Responsible governance is the key to peace, stability, and sustainable economic growth. The African Union (AU) and its NEPAD program that was developed in 2001 have already triggered important reform impulses and a process of mutual assessment and support (APRM - African Peer Review Mechanism). The G8 countries are supporting the African partners in conducting the peer reviews and in implementing the resulting conclusions. Support for the African regional organizations, the management of public finances, and the fight against corruption are additional important objectives. The donor community is additionally committed to working toward higher effectiveness and better coordination of its development assistance financing in the spirit of the Paris Declaration and to including new donors in the dialogue, above all China.
- *Sustainable Development*: Private investment is indispensable for attaining the millennium development objectives and a sustainable, poverty-reducing economic growth. Germany will support measures to improve the investment climate in Africa and facilitate private investment, and will join the Investment Climate Facility (IFC). Furthermore, the G8 will support the African regional organizations in institutionally implementing infrastructure investment in order to lower the high production and transport costs in Africa. Germany will establish a regional micro-financing fund for Africa in order to assist individual micro-credit measures in a coordinated manner and will work ensure that African emigrants can transfer capital back to their home countries.

- *Peace and Security:* Conflict settlement and peacekeeping are of key importance in the fight against poverty. As Africa's direct neighbor, Europe also has an immediate interest in shaping peace and security in Africa in the light of migration movements associated with war and conflict. The G8 support the AU in building an indigenous African security structure. The development of the African Standby Force (ASF) in five regions of Africa, the support of the AU's peace and security council, the strengthening of the ASF's civilian components and the AU's post-conflict capacities, and improved donor coordination are additional goals of Germany's G8 Presidency.
- *Strengthening the Health Care System, Fighting HIV/AIDS, Tuberculosis, and Malaria:* Some 70 % of the total of 40 million persons infected with HIV live in Africa south of the Sahara. Not even one million of those afflicted in Africa have access to treatment and medications. UNAIDS estimates that the GDP of some of Africa's countries will decline by more than 20 % as the result of HIV/AIDS. The disease is threatening to massively impair economic development and the reform efforts being undertaken. The G8 countries have committed themselves to stopping the increase of HIV/AIDS insofar as possible by 2015, and by 2010 arriving as close as possible at the goal of universal access to prevention, treatment, and care. Germany and the other G8 partners are called on this year to contribute their shares to the future work of the global fund for combating HIV/AIDS, tuberculosis, and malaria.

Global cooperation and active political guidance are increasingly important. Germany is well aware of its responsibility as the world's third-largest economy. If success is achieved in bringing together all of the relevant players, including the newly industrial countries, the prospects will then be good that the global economy can continue to develop in a positive manner, that an increasing number of countries and broader population strata will participate in global prosperity and be able to further develop culturally and socially, and that approaches to solutions will ultimately be able to be developed in time to meet the urgent global problems of environmental protection, climate protection, and energy supplies. Germany will work hard to make this a reality under its G8 Presidency.