

The G8's Role in the Fight Against Terrorism

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Nicholas Bayne

Terrorism, in various forms, has a long history as a G7/G8 subject. In the form of hijacking, it led to the first non-economic agreement from a G7 summit, with the declaration agreed at Bonn I 1978. In the form of hostage taking, it was a major issue when the summit first added a non-economic agenda, at Venice I 1980. It was the principal subject for discussion among the heads of government at Tokyo II 1986, when economic matters were largely delegated to their finance ministers. The G7 (now G8) expert group on terrorism dates from this time. Terrorism became active again at the Halifax 1995 summit, leading to the first G8 meeting of home affairs ministers in Ottawa later that year, and was a major preoccupation at Lyon 1996, which took place just after a terrorist attack on American servicemen in Saudi Arabia. Since then terrorism has not come back to summit level, though it has been a regular concern of G8 foreign ministers. No one anticipated the attacks of 11 September on the United States, but the G8 terrorism machinery is well tried and ready to hand.

These remarks, however, focus not on terrorism as such, but on how the terrorist attacks will affect the economic work of the G7 and G8. They address three areas:

- Economic instruments in the fight against terrorism;
- The economic impact of the terrorist attacks and the response to them;
- The wider consequences of the anti-terrorism campaign for the G7/G8's activities.

Economic Instruments Against Terrorism

In the past, various economic measures were mobilised in order to put pressure on terrorist groups and on states that sponsor them: trade sanctions, investment sanctions, transport sanctions and denial of official financing, eg from the IMF or World Bank.

But none of these measures touched the terrorists directly and their impact on the sponsoring states, like Iran, Iraq and Libya, was not very effective. So these measures did not offer much in the fight against Al-Qaeda.

But one economic instrument has the potential to reach not only states sponsoring terrorism but even the terrorists themselves. That is the freezing and confiscating of terrorist assets, making it impossible for them to finance their activities. This emerged as a favoured instrument very soon after 11 September. It was the main point of substance in the first statement by the G7 finance ministers, on 25 September, and the first item in the statement issued after their meeting on 6 October.

The G7 not only judged this to be an effective weapon against terrorism, but they had a mechanism to hand for deploying it. This is the Financial Action Task Force (FATF). The FATF was founded at the Paris (Arch) summit of 1989, to fight against the laundering of the proceeds of drug trafficking and other forms of crime. It has grown to 29 members, mainly from the OECD, with links to other regional bodies with the same aim. The FATF worked away quietly throughout the 1990s, until the G7 decided to raise its profile and give it some more teeth. So in 2000 and 2001 the FATF identified a list of 'non-cooperating jurisdictions', which were open to money-launderers; these ran the risk of being placed off-limits by Western financial institutions if they did not clean up their act. Some of these jurisdictions were small offshore centres like the Cayman Islands and Liechtenstein; others were larger countries like Israel, Hungary and even Russia itself. The FATF's decisions were endorsed by the G7 leaders at the Okinawa and Genoa summits.

Since 11 September, both the United States and the European Union have moved fast to tighten up their legislation against terrorist finances and have frozen a lot of suspect accounts – the numbers increase steadily. A very wide range of other countries – 112 in total – have taken similar action against known terrorist accounts. The way was thus clear for a special meeting of the FATF in late October to agree to widen its remit to cover terrorist finances.

All this sounds like very good progress; in fact it is rather too good to be true. Now that they are put under the spotlight, the FATF's earlier measures turn out to be not

very impressive. The banking community were not committed to them, regarding them as tiresome and of doubtful efficacy. Many of the things governments are doing now they should have done years ago. Earlier this year a compliance review of its members by the FATF produced especially low scores for the United States and Canada. The United Kingdom scored rather better, but still made it difficult to track down the assets placed in London by the former Nigerian President Abacha.

The effect of the terrorist attacks of 11 September should mean that now both bankers and governments take their responsibilities more seriously. Financial institutions suffered the most from the destruction of the World Trade Centre. New Canadian anti-money laundering legislation - the Proceeds of Crime (Money Laundering) Act – began to take effect on 7 November. This legislation was prepared long before the terrorist attacks. But it now likely to get proper attention, rather than lip service.

But even if governments take their responsibilities seriously, tracking down the terrorist funds will be very hard. Often they use unconventional channels, like the *hawala* system, by which funds move internationally without being in identified bank accounts. So it would be a mistake for the FATF to concentrate on terrorist funds at the expense of their original targets. As will appear later, the fight against terrorism must also be a fight against the roots of terrorism. That means keeping up the pressure to track the proceeds of crime and drug trafficking as well.

Economic Impact of the Terrorist Attacks

By targeting the World Trade Centre in New York, Al Qaeda hoped to cause crippling economic damage. In the short term, the financial institutions housed in the twin towers have shown amazing resilience. But there is economic damage, especially because the attack happened when the US economy was already slowing down sharply. Three elements can be distinguished:

- There has been a widespread loss of business confidence. Firms have been reluctant to take risks or undertake new ventures. This reluctance has been prolonged by the uncertainty caused by the hostilities in Afghanistan.

- Certain sectors have been hit extremely hard. The worst affected are aviation and tourism, with the industries associated with them.
- Consumer confidence has been affected too, though less than one might expect. People have tried to maintain normal lives in defiance of the terrorists and have responded to generous credit offers. The job losses caused by slackening growth are having more of an impact on consumer confidence.

The US economy was still going down on 11 September. It had not levelled off, as Greenspan had claimed in July, just before the Genoa summit. A rapid recovery, as from previous slowdowns, looked unlikely, as this time the problem was excessive investment levels rather than inflation. Now, in early November, it is clear that the American economy is in recession and recovery has been put off further. Elsewhere in the G7, continental Europe is also slowing down sharply, especially Germany, while Japan has long been a dead weight on the system.

This is bad news for the G7 members, but worse for developing countries. Some of them were already suffering from the US decline, while others are more affected by the terrorist attacks:

- High exporters, especially Asian centres like Singapore and Taiwan, are badly hit by the American slowdown;
- Commodity producers, especially in Africa, see prices and earnings falling because of low demand;
- Countries relying on inflows from the capital markets, eg in Latin America, are damaged by the reluctance to take risks;
- Countries heavily dependent on tourism, eg in the Caribbean, face special problems.

There is thus a lot of bad news. But there is also some good news:

- There is a powerful conviction that the US economy is basically very strong, coupled with a determination not to give comfort to the terrorists. This, for example, is holding up financial markets and the value of the US dollar.
- Inflationary pressures are generally low, unlike the last three recessions.

- There have been substantial measures to ease monetary policy, fairly well coordinated. The United States is also preparing a fiscal stimulus.

Despite these positive factors, next year the G7 may face the problem of reviving the world economy in a way it has not really done since the late 1970s. If it were just a matter of responding to the original US slowdown, that could have been left to the finance ministers. But since the terrorist attacks were a direct attack on the international economy, the recovery of the world economy has greater political significance and deserves the attention of the heads of government. Unlike the 1970s, the G7 members cannot just coordinate their policies to suit themselves; they must respond to the needs of the whole world community.

Two other consequences of the terrorist attacks deserve attention:

- The first is the risk of a distraction effect – the concentration on fighting terrorism leads to a neglect of other problems. Immediately after 11 September, international meetings were cancelled or postponed. This could not be allowed to continue too long; it is very welcome that Canada offered to host some of the postponed IMF and World Bank meetings in Ottawa on 17-18 November. A wider danger is that crises unrelated to the terrorist attacks do not get the attention they deserve. Pakistan is getting favourable debt relief and no one now would allow Turkey to collapse financially. But Argentina's predicament – recognised at Genoa – should not be forgotten.
- Second, what have the terrorist attacks done to attitudes to globalisation? The answer comes in two parts. On the one hand, people are likely to be more worried about globalisation and its consequences than they were before. There will be more concern about social issues and values, at the expense of economic. But on the other hand, public support and tolerance of violent anti-globalisation demonstrations has gone down sharply. There is more support than formerly for the police and for governments generally. Both these trends could prove positive. Governments will be obliged to do more to explain globalisation and its benefits, as they should be doing. But they should be able to do so in conditions where they can hope to be heard. G8 leaders may yet be

able to mingle with the crowds again, as they did at Halifax and Birmingham, rather than being shut away behind high wire fences and phalanxes of police.

The Wider Consequences of the Anti-Terrorism Campaign

Studying the G7 and G8 helps us to understand why and how states cooperate economically. In normal conditions there are international economic arguments *for* cooperating, but also domestic arguments, both economic and political, *against* cooperating. These are so evenly matched that cooperation is always hard work and often fails. But every now and again international *political* arguments intervene, which strongly reinforce the international economic ones and lead to real breakthroughs in economic cooperation.

The best examples are from the 1940s. The political imperative of avoiding another war produced the IMF, the World Bank and the GATT. The political aim of checking communism in Europe led to the Marshall Plan. More recently, the end of the Cold War provided the political impetus that produced the conclusion of the Uruguay Round of trade negotiations in 1993 and the harvest of environmental agreements at Rio in 1992. Since then the tide of cooperation has ebbed again. But the fight against terrorism could provide a similar political incentive to greater international economic cooperation.

The United States has put together a remarkable coalition against terrorism. Every responsible government hates and fears terrorism and does not want to give encouragement to terrorists. A properly functioning international system is part of the defence against terrorism. One early – and surprising – recognition of this has been the much greater readiness to get a new WTO trade round launched from the Doha meeting.

But that is only the beginning. The Americans – and their allies – realise that fighting terrorism will be long and hard. It is not confined to removing the Taliban in Afghanistan. It is essential to attack the roots of terrorism as well as the symptoms of it. The campaign will be conducted on many fronts – military, political and

economic. Spokesmen for the US Administration have made this point repeatedly. But the remarks of Republican Senator Chuck Hagel, as quoted in the *Financial Times* of 29 October, are especially striking:

“The root causes of instability in most regions of the world are economic and social. Those are the breeding grounds of radicalism . . . when people have no hope because they are living in poverty and hunger and pestilence. Until we start to recognise that . . . we will never really get to the core of stopping terrorism.”

Many of the actions in this wider campaign will be concentrated initially in helping the states surrounding Afghanistan, as well as trying to rescue Afghanistan itself from poverty, famine and illiteracy. But there are strong grounds for linking worldwide development strategy with the anti-terrorist campaign.

This is directly relevant to the G8 agenda, as established at Okinawa and Genoa and looking forward to Kananaskis in 2002. This agenda is already focused on bringing more of the benefits of globalisation to poor countries. There is now a greater incentive and a greater prospect of moving towards goals already established: bridging the digital divide, through the DOT Force established at Okinawa; attacking infectious diseases through the Global AIDS and Health Fund agreed at Genoa; bringing about the revival of Africa, through the Action Plan promised at Genoa and to be completed at Kananaskis. This will require a lot resources and a lot of stamina; no one yet knows if they will be forthcoming. It will also be essential for the United States and its allies to stand back and give the countries they are helping the ‘ownership’ of their own development.

The Genoa summit of 2001 could be one of the most productive of the entire series, if the commitments made there were implemented in full. Immediately after the summit, there were doubts whether they would be. The terrorist attacks of 11 September, and the response to them by the United States and its allies, increase the chances that the Genoa promises will be honoured.