



# Seven Priorities for the G7 in 2023

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**What's new?** Leaders of the Group of Seven, or G7, will meet in Japan from 19 to 21 May for an annual summit to discuss global economic and political affairs.

**Why does it matter?** While the G7 will focus on Russia's war in Ukraine and China's growing assertiveness, the summit is an opportunity to address a fuller range of economic and political crises with implications for global peace and security – including in Haiti, Myanmar, North Korea, Pakistan and Tunisia as well as across Africa.

**What should be done?** G7 leaders should pledge to help poorer countries avert default and bolster aid to those facing conflict. Meeting in Japan, they should focus on Asian crises – pressing Myanmar's junta to cease attacking civilians and beginning to map out incentives for North Korea to dial back its nuclear and missile activities.

## *Overview*

Japanese Prime Minister Fumio Kishida will host his counterparts from the Group of Seven industrialised nations (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States plus the European Union, or EU) in Hiroshima from 19 to 21 May. Japan has invited the leaders of Australia, Brazil, the Comoros (the chair of the African Union, or AU), the Cook Islands (chair of the Pacific Islands Forum), India (president of the G20), Indonesia (president of the Association of Southeast Asian Nations, or ASEAN), South Korea and Vietnam to join the gathering. The heads of various multilateral bodies – including the UN, International Monetary Fund (IMF) and World Bank – will attend, too. The summit will inevitably focus on two challenges: Russia's war in Ukraine and China's increasingly assertive posture in the Asia Pacific. But with much of the world still reeling from the economic blows dealt by the COVID-19 pandemic and Russia's aggression, the G7's members should seize this important opportunity to show they can be of help.

Russia's all-out invasion of Ukraine in 2022 gave the G7 a new sense of purpose after a long period of uncertainty about its role in global affairs. Since 2008, when the U.S. turned to the G20 as the main vehicle for managing the global financial crisis, the smaller club of major Western economies has played a reduced (although far from negligible) role in decision-making about shared and global challenges. U.S. President Donald Trump used G7 summits as opportunities to berate U.S. allies, highlighting divisions among the Western powers. President Joe Biden used the first post-Trump conclave, held in Cornwall in 2021, to stage a show of Western reconciliation,

but then Russia's attack on Ukraine led the Group to start coordinating on foreign policy with new vigour.

Over the last sixteen months, G7 leaders and ministers have worked together on several aspects of Russia's war in Ukraine, from agreeing to a price cap on Russian oil sales to planning reconstruction. In recent months, G7 officials have been consulting one another frequently about the possibility of establishing a tribunal to try Russian leaders for the crime of aggression. Ukraine and its allies in Central and Eastern Europe are not always happy with the G7's positions, noting that the Group includes a number of powers – France, Germany and Italy – that they believe are too cautious in challenging Moscow. Nonetheless, G7 members, who have held a series of video conferences with Ukrainian President Volodymyr Zelenskyy since Russia launched its full-scale invasion, see the Group as a useful platform for synchronising policies on the war alongside NATO and the European Union.

The G7 has also provided a framework for its members to register growing unease about China's economic and military activities in the Asia Pacific. This subject was already a focus for Japan, as the Group's president in 2023 and its sole Asian member. When the G7 leaders last met in person in June 2022, their summit communiqué raised a series of concerns about China – including its actions in the South and East China Seas and its human rights record – but also underlined the need to cooperate with Beijing on “global challenges” such as climate change. When the Group's foreign ministers met in April, they agreed on much firmer language (despite another nod to global challenges), declaring that they would “speak candidly” to Beijing and calling on it to “abstain from threats, coercion, intimidation and the use of force” in its neighbourhood. China responded angrily to what it called “prejudiced” remarks that “grossly interfered” in its affairs.

Despite the G7's shows of unity toward Russia and China, the Group's members do not see eye to eye on how to deal with either power or with international security more generally. A U.S. initiative to use the Hiroshima summit to adopt new restrictions on trade with Russia – plugging holes in existing measures – was reportedly met with European and Japanese objections. French President Emmanuel Macron made it clear after a visit to Beijing in April that he opposed following the U.S. unconditionally into a confrontation with China over Taiwan. Japan, meanwhile, has indicated that it would like to use the G7 conclave as an opportunity to discuss “realising a world free of nuclear weapons”, something that the group's nuclear powers – France, the UK and the U.S. – will likely be reticent about embracing. It is likely, however, that all the G7 members will repeat their past calls for Russia to refrain from nuclear use in Ukraine and demand that North Korea dismantle its nuclear program.

While the Hiroshima summit seems set to be a solid show of Western unity, albeit within limits, the G7's leaders need to consider how their messages may go down with various audiences, not only in the West but also in Africa, Asia, Latin America and the Middle East. Since Russia attacked Ukraine in 2022, G7 members have often been frustrated by the fact that their non-Western counterparts have failed to condemn – or sanction – the Kremlin. The guests at Hiroshima include the leaders of a number of countries, including Brazil, India, Indonesia and Vietnam, that have tried in various ways to maintain balance in their approach to Moscow and Kyiv. (Brazil and Indonesia have regularly voted against Russia at the UN, while India and Vietnam have abstained.) There could be uncomfortable conversations on the summit's side-

lines, not least if Brazilian President Luiz Inácio “Lula” da Silva promotes his proposal that a contact group of countries mediate an end to the war, an idea that Russia has welcomed and Ukraine dismissed.

These particular points of tension aside, G7 leaders also need to consider the feeling among many countries that Western powers – focused on Ukraine – are dismissive of the concerns of states and peoples elsewhere. For many countries in the so-called Global South, inflation, commodity shocks and mounting debts are the main threats of the moment. Many blame G7 members and other countries with advanced economies for exacerbating these challenges by tightening their domestic money supply to tame inflation – leading to the global credit crunch discussed below – and by using the sort of sanctions they imposed on Russia. G7 leaders will contend that these accusations are often unfair, but they need to show willingness to tackle the challenges the rest of the world is facing. As argued below, addressing economic concerns is not just a matter of global political optics, but a measure necessary to stop crises in vulnerable states from escalating. In Asia, too, G7 members would benefit from showing that they can lead on crisis management in cases like Myanmar and North Korea, even with the China question looming.

The biggest question for the G7 leaders gathering in Hiroshima is what vision of leadership they want to project. Is the Group – which first came together in the 1970s as a sort of steering committee for the U.S. and its weightiest Cold War allies – still fundamentally a Western club that will now focus on constraining non-Western challengers? Or do the G7 members see themselves as guarantors of an international system that can help address the vulnerabilities of other states and regions, even when the latter do not necessarily look at the world through the G7’s strategic lens? How the G7 leaders choose to answer these questions will affect their ability – collectively and individually – to win support and good-will from the rest of the world.

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## **I. Dealing with Destabilising Economic Crises**

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When G7 leaders met in 2022, the economic fallout from Russia’s all-out attack on Ukraine was a top concern. Economic problems will continue to absorb their attention in Hiroshima. But while the participants will likely talk about problems in their home countries – such as April’s U.S. bank collapses – they may have less time to talk about economic difficulties elsewhere.

But the assembled leaders should not overlook the rest of the world’s challenges. While commodity prices have retreated from their peaks following Russia’s invasion of Ukraine, and supply chains tangled by COVID-19 and the war have begun to straighten, inflation rates remain at historically high levels and household savings continue to dwindle. In much of the world, economic vulnerability has surged over the past year, and in some places political tensions have spiked in parallel. G7 countries are somewhat responsible. Having protected themselves by tightening liquidity and money supply to tame inflation, they provoked an international credit crunch that has already hit poorer countries hard – and will soon hit even harder.<sup>1</sup> Faced with a

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<sup>1</sup> As countries with advanced economies decrease their reserves as well as reduce liquidity operations and money supply, the global economy is under significant stress. The U.S. is aggressively reducing

looming recession, poor and middle-income countries need help, but now that the G7's own path to economic recovery is imperilled, its members may be tempted to downgrade the already halting efforts to stabilise the more fragile economies' finances.<sup>2</sup> That would be short-sighted, however, from both a global economic and a peace and security perspective.

Worsening economic indicators on their own do not cause or exacerbate conflict, but the cost-of-living crisis, in particular, has created political pressures that in some places threaten unrest. After years of distress, many governments are unable to cushion their populations from shocks. Sri Lanka, Türkiye and Zimbabwe have seen rises in inflation of 46, 72 and 193 per cent, respectively.<sup>3</sup> In countries ranging from Pakistan and Myanmar to Mozambique, imports have dropped, and along with them consumption, including of basic goods.<sup>4</sup> Unemployment has skyrocketed in places from Bosnia and Herzegovina to South Africa.<sup>5</sup> Of particular concern is a shortage of U.S. dollars.<sup>6</sup> Further aggravating the cost-of-living problem is a new surge in fuel prices

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its balance sheet and replenishing its Treasury General Account, resulting in further downward pressure. The country's money supply has fallen 4 per cent over the last year, the largest year-over-year decline on record. Other advanced economies and global growth engines have also seen credit declines. Japan maintains yield curve control without significant purchases; Germany is grappling with recessionary pressures; and the European Union is reducing its balance sheet by employing quantitative tightening (a monetary policy in which central banks reduce the money supply by selling financial assets, typically to counter inflation and normalise interest rates). Meanwhile, China expanded credit over the past two quarters but is expected to refrain from open-market operations and aggressive economic stimulation. Liquidity constraints typically affect credit flows, which subsequently affect economic growth within six to twelve months. The implication is that the liquidity reduction in advanced economies will lead to a global economic downturn in the last two quarters of 2023 and first quarter of 2024. Jamie McGeever, "US money supply falling at fastest rate since 1930s", Reuters, 30 March 2023. Andreas Steno Larsen visualises the fall in U.S. money supply in "The banking crisis is back!", Stenos Signals, 26 April 2023.

<sup>2</sup> The current IMF outlook projects a decline in global growth from 3.4 per cent in 2022 to 2.8 per cent in 2023, eventually stabilising at 3 per cent in 2024. A particularly noticeable slowdown in growth is expected in advanced economies, dropping from 2.7 per cent in 2022 to a mere 1.3 per cent in 2023. Core inflation, which omits volatile components such as food and energy prices, is expected to decrease only gradually and in most places is unlikely to revert to target levels before 2025. "World Economic Outlook 223: A Rocky Recovery", International Monetary Fund, April 2023, p. 9. The insolvency of Silicon Valley Bank and other U.S. banks, along with UBS's acquisition of Credit Suisse, have raised concerns among policymakers that combating inflation with high interest rates could precipitate systemic financial instability.

<sup>3</sup> Inflation rates from 2022. By the end of 2023, inflation rates for Sri Lanka, Türkiye and Zimbabwe are expected to reach 29, 51 and 172 per cent, respectively. "World Economic Outlook 2023: A Rocky Recovery", op. cit., pp. 149-153.

<sup>4</sup> Crisis Group estimates using import data from Trading Economics.

<sup>5</sup> In February, Bosnia and Herzegovina recorded an unemployment rate of 31 per cent, while South Africa's unemployment rate was above 30 per cent as of January. "Unemployment Rate/World", Trading Economics, 9 May 2023.

<sup>6</sup> Despite coordinated central bank action to enhance liquidity, U.S. dollars remain scarce around the globe. "Coordinated central bank action to enhance the provision of U.S. dollar liquidity", press release, Board of Governors of the Federal Reserve System, 19 March 2023. The scarcity precludes households in countries facing steep currency depreciation from acquiring dollars, a typical hedge against inflation that protects savings and preserves the ability to afford imported goods, which in many places include food. Pakistan is a case in point. Its imports, including food, dropped by 30 to 35 per cent in March relative to the same month in 2022, worsening the effects of the floods that

that, in addition to the direct burden it creates, likely will soon drive up food prices since transport and fertilisers (the production of which requires natural gas) make up a significant part of food costs.<sup>7</sup> As noted below, these developments have had destabilising consequences in Haiti – and Pakistan and Tunisia are teetering as well.

Among the most painful of these factors is the global credit crunch – which may be about to worsen, given the U.S. banking sector’s troubles.<sup>8</sup> Rising interest rates have been particularly difficult for states with elevated conflict risk because they typically rely more heavily on credit and are less financially self-sufficient. As credit grows scarce, global lenders hesitate to invest in places that are marked by political risk, fearing they will not recoup their loans. Dwindling credit brings further economic decline, which is amplified by persistent inflation. This decline further elevates conflict risk, which in turn chokes off credit, and so on.<sup>9</sup>

At the end of this downward spiral lies sovereign default, which threatens an increasing number of states today. Some credible authorities claim that the default fear is overblown, since in relative terms external debt today is much lower than it was during the debt crises of the 1980s and 1990s.<sup>10</sup> But the number of countries on the edge speaks for itself. During the 2010s, fourteen states defaulted – the same number that defaulted in the three years from 2020 through 2022.<sup>11</sup> Presently, another seventeen low-income countries are in debt distress, of which ten are grappling with various forms of conflict, including Sudan, Mozambique and Somalia.<sup>12</sup> Slow growth, coupled with rising debt service payments (since, unlike in past decades, many loans carry variable interest rates), leaves these countries at the mercy of G7 and especially U.S. monetary policy.<sup>13</sup> For states on the brink, the consequences of default – such as

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inundated much of the country. “Monthly Economic Update and Outlook March 2023”, Government of Pakistan, Finance Division, p. 6. A recent study found that in flooded areas, one third of children aged 6-23 months are suffering from moderate acute malnutrition and 14 per cent from severe acute malnutrition. Abdul Rasheed Azad, “Survey conducts in 15 flood-hit districts: Malnutrition among children alarmingly increased: UN”, *Business Recorder*, 19 April 2023.

<sup>7</sup> The rise is due partly to recent production cuts by the Organization of Petroleum Exporting Countries and allies. Though the oil price rise is expected to be short-lived, perhaps until the end of the North American spring, it is ill timed. It will raise production costs for the coming harvest and thus global food prices, including in places not directly affected by the war in Ukraine. For instance, as a result of higher fertiliser prices, international rice prices have increased more than 11 per cent since October 2022, further stressing budgets in Asia – and in Haiti. Crisis Group estimates using data from the World Bank Commodity Markets Pink Sheet. Increase of international rice prices estimated from October 2022 to March 2023.

<sup>8</sup> “Federal Reserve warns of credit crunch risk after US bank turmoil”, *Financial Times*, 8 May 2023.

<sup>9</sup> The IMF projects that inflation rates in middle- and low-income countries will be almost twice (8.7 per cent) those in advanced economies (4.7 per cent) in 2023. Both rates are significantly higher than pre-pandemic levels. The IMF expects the same pattern in 2024. “World Economic Outlook 2023: A Rocky Recovery”, op. cit., p. 9.

<sup>10</sup> The IMF has pointed out that as a share of GDP, external debt today is 30 per cent lower than it was four decades ago. “World Economic Outlook 2023: A Rocky Recovery”, op. cit., p. 16.

<sup>11</sup> The fourteen defaults since 2020 have occurred in nine countries: Argentina, Belarus, Ecuador, Ghana, Lebanon, Sri Lanka, Suriname, Ukraine and Zambia.

<sup>12</sup> “World Economic Outlook 2023: A Rocky Recovery”, op. cit., p. 9; “List of Low-Income Countries Debt Sustainability Analysis”, International Monetary Fund, 28 February 2023.

<sup>13</sup> The rate of external debt with variable rates has almost doubled from 1970 to 2023. “Macroeconomic Developments and Prospects in Low-Income Countries – 2022”, IMF Policy Paper 22/054, December 2022, p. 16.

currency depreciation, rising food costs, capital outflow, unemployment, banking system instability and reduced access to international credit markets – could prove nearly insuperable.

The political obstacles to avoiding such an outcome are often more formidable than the technical ones. When conflict parties are at loggerheads, and particularly when they are shooting at each other, it is all but impossible for a national government to convince outside lenders that economic reform and productive capital investment are viable. Creditors often remain hesitant to lend money for fear of non-repayment, even after the IMF signs off on a bailout, as has been the case in Egypt. For this reason, while an IMF loan may stave off default in the short term, it usually by itself will not ensure long-term economic recovery, which generally requires the hard-to-come-by triumvirate of political stability, economic reform and support from various international institutions.

Averting a wave of default will require prompt, concerted action by G7 countries. The group's foreign ministers have already endorsed useful steps, such as better creditor coordination.<sup>14</sup> These are a good but insufficient start. Creditors, including those among the G7, should go further, using strategies that were successful in curbing previous debt crises, such as debt restructuring with lower payments and extended repayment periods, as well as suspended obligations while debtors participate in good-faith negotiations.<sup>15</sup> The crisis is unlikely to be resolved without creditors sharing the burden in the form of a "haircut" – that is, writing down the value of a loan. The more quickly creditors adopt the sort of measures advanced here, the less exposed they will be to taking an even bigger haircut because of events outside their control.<sup>16</sup>

Also vital is that G7 nations honour their commitment to recycling their allotment of Special Drawing Rights (SDRs) – an international reserve asset created by the IMF to supplement member countries' official reserves that can be passed ("recycled") to countries in need – or encourage a new allocation of them. SDRs can be used for various purposes, including facilitating the consumption of imported goods, supporting current capital accounts and stabilising exchange rates.<sup>17</sup>

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<sup>14</sup> These include an emphasis on fair lending practices, enhanced creditor coordination for debt restructuring and implementation of key principles like debt transparency, sustainability and quality infrastructure investment. "G7 Japan 2023 Foreign Ministers' Communiqué", U.S. Department of State, 18 April 2023.

<sup>15</sup> During the Latin American debt crisis of the 1980s, Argentina, Brazil, Mexico, Venezuela and others issued "Brady bonds", named for former U.S. Treasury Secretary Nicholas Brady, who originated the concept. With the assistance of the IMF and/or the World Bank, a debtor country negotiates with creditors to restructure its distressed debt, usually at a reduced value, into a secured and tradable bond. Typically, the IMF or the Bank provides funding to collateralise the principal amount of the new bonds with 30-year zero-coupon U.S. Treasury bonds, the security of which reduces the credit risk and gives investors an incentive to buy the new debt. For detail, see Ying Qian, "Brady Bonds and the Potential for Debt Restructuring in the Post-Pandemic Era", BU Global Development Policy Center Working Paper, 2021.

<sup>16</sup> Vybhavi Balasundharam et al., "Fiscal Consolidation: Taking Stock of Success Factors, Impact and Design", IMF Working Paper, 17 March 2023.

<sup>17</sup> Crisis Group Commentary, "Responding to Global Economic Vulnerability", 31 January 2023. An SDR disbursement would be a global version of the actions taken by some G7 central banks and treasuries to increase liquidity and reduce insolvency risk in order to mitigate the potential for financial instability as a result of their tight monetary policies. The U.S. Treasury created the repurchase market ("repo market") through which regional banks can obtain loans with their Treasury bills as

So far, G7 nations have taken few of these measures, largely because of the complex financial arrangements required, the diversity of creditors and disagreements among the largest of them. To contain crises in the last century, G7 countries, which then held the majority of sovereign debt, worked with other Western donors through a loose body hosted by France and known as the Paris Club. But now China is the world's largest creditor, and India and private banks hold significant debt as well.<sup>18</sup> In 2021, the G20 formed a more inclusive debt relief group, the Common Framework, but it did little, owing to China's disinclination to write down loans, especially to the private sector's benefit, and the G7's unwillingness to provide relief that would help China. The Framework has since been superseded by the Global Sovereign Debt Roundtable, which also includes private lenders. The new formula might work better, partly because the private banks' involvement makes relief more palatable for China, but more because Beijing's own loans have soured rapidly, forcing it to agree to relief.<sup>19</sup> Pakistan and Sri Lanka are notable examples.

In the meantime, the IMF remains the lender of last resort. It continues to push hard for removing subsidies, including on food and fuel, as a condition for new loans. Though potentially sensible for macro-economic stability, subsidy removal drives up the cost of living and sometimes sparks violent unrest.<sup>20</sup> Even governments in extreme distress balk at accepting this enormously unpopular measure. As influential members of the IMF board, the G7 nations should advocate reconsideration of the institution's fairly rigid approach to subsidies and create alternatives, particularly in the short term.<sup>21</sup> The G7 also could aid poor countries in expanding unemployment insurance, which would help mitigate the repercussions of monetary policies designed to curb inflation.

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collateral, with the expectation that G7 member countries will put similar policies in place, paired with liquidity injections if needed. For details, see Nathan Reiff, "Repurchase Agreement (Repo): Definition, Examples and Risks", Investopedia, 31 March 2023.

<sup>18</sup> The proportion of external debt held by creditors not belonging to the Paris Club has risen from 8 to 22 per cent, while private creditors' share has increased from 8 to 16 per cent. "Macroeconomic Developments and Prospects in Low-Income Countries – 2022", op. cit., p. 16.

<sup>19</sup> China has renegotiated or written off loans related to its Belt and Road Initiative (estimated at nearly 8 per cent of the country's total loans, or close to \$78.5 billion). It has also expanded its use of rescue loans. China's lower than expected growth rate is whetting its appetite to secure at least a portion of what it is owed. James Kynge, "China hit by surge in Belt and Road bad loans", *The Financial Times*, 16 April 2023.

<sup>20</sup> A number of countries have seen protests over removal of food and fuel subsidies in the past two years: Syria (June 2020), Sudan (January and June 2021), Kazakhstan (January 2022), Peru (April 2022), Iran (May 2022), Ecuador (July 2022), Pakistan (July 2022), India (August 2022), Haiti (September 2022), Nigeria (September 2022), Moldova (February 2023) and Suriname (February 2023), among others. Data compiled by Crisis Group using the Carnegie Endowment Protest Tracker.

<sup>21</sup> For instance, the G7 could support replacing untargeted food, fertiliser and fuel subsidies with targeted subsidies for the poorest. Targeted subsidies would bring their own challenges – for instance, states with weak governance might lack the capacity to get them to the neediest people – but flexibility is key.

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## II. Africa: Reinforcing Resilience

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For more than twenty years, the G7 has maintained a regional agenda with respect to Africa that transcends country-specific issues. Since 2000, when Japan broke new ground by inviting the presidents of Algeria, Nigeria and South Africa to a G8 summit in Okinawa, the Group has made building economic ties with Africa as a whole a priority.<sup>22</sup> Although only one African leader – African Union Chair and Comoros President Azali Assoumani – will be present in Hiroshima, Japan has made an effort to court African governments. As a warm-up for the 2023 summit, Prime Minister Kishida visited Egypt, Ghana, Kenya and Mozambique in late April and early May.<sup>23</sup> For Tokyo, this outreach is in part an effort to counter China's influence on the continent.

The economic fallout from the COVID-19 pandemic and Russia's all-out invasion of Ukraine has rippled with particular force in Africa. Soaring food and fuel prices have hurt the most vulnerable, especially women, who often shoulder responsibility for feeding families while being blocked from fully participating in the labour force.<sup>24</sup> Anger at the cost of living has been a contributory factor in waves of protest in countries including Kenya, Nigeria, South Africa and Zambia. (This unrest has often reflected other tensions as well, such as in Kenya, where the opposition rejected the outcome of 2022 elections.) Nonetheless, G7 members should pay attention both to the economic pressures driving discontent in individual African countries and to regional leaders' criticisms of the global economic system.

The global debt crisis outlined above is especially acute on the continent. Of the twenty countries that spend the highest percentage of their revenues on servicing debt, eight are in Africa.<sup>25</sup> Ghana in particular has been struggling to find its economic footing since December 2022, when it announced it could no longer service most external debts.<sup>26</sup> Many African leaders have sharpened their critique of what they see as an unfair global financial system that obliges them to borrow money at excessive rates.<sup>27</sup> They blame credit rating agencies for exaggerating the risk of investment in

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<sup>22</sup> See David Black, "The G8 and Africa: A Partial Reckoning," *Global Governance*, vol. 18, no. 4, (2012).

<sup>23</sup> "Japan's PM Kishida seeks global ties with Africa in bid to woo 'Global South'", Reuters, 4 May 2023.

<sup>24</sup> Hana Brixi and Martien Van Nieuwkoop, "Empower HER to address food and nutrition security in Africa", Voices (blog), World Bank, 13 October 2022. Women make up 40 per cent of the agricultural labour force in Africa. They are more food-insecure than men as they generally spend more time managing households and bear greater responsibility for feeding the family. They are often blocked from full labour force participation due to structural inequalities and social expectations.

<sup>25</sup> "World leaders call for stronger multilateral solutions to debt crisis", UN Conference on Trade and Development, 5 December 2022.

<sup>26</sup> Jonathan Wheatley, "Ghana default puts domestic debt 'can of worms' in the spotlight", *The Financial Times*, 14 April 2023.

<sup>27</sup> In his speech to the 36th AU Assembly, AU Commission Chairperson Moussa Faki Mahamat said "Africa's partners" have not kept their financial promises, thus obliging AU member states to incur debt with "draconian conditionalities" attached. In their own speeches, Senegalese President Macky Sall, the AU's outgoing chair, and Ethiopian Prime Minister Abiy Ahmed, the summit's host, stressed the impact of the high debt burden and the need for a restructured global financial system. Speeches by Macky Sall, president of the Republic of Senegal, Abiy Ahmed, prime minister of the Federal Democratic Republic of Ethiopia, and Moussa Faki Mahamat, chairperson of the African Union Commission, at the 36th Ordinary Session of the Assembly of the African Union, 18-19 February 2023.



Africa. A recent UN report estimated that African countries, in effect, lose \$74.5 billion per year due to excess interest rates and foregone funding linked to “credit rating idiosyncrasies”.<sup>28</sup> Some economists take issue with aspects of this analysis – but the perception of unfairness is widespread across the continent.<sup>29</sup>

African leaders are also calling for reform of IMF and World Bank decision-making bodies, in which African countries are under-represented, and for changes in the provision of development funds to low- and middle-income countries.<sup>30</sup> The World Bank ostensibly met these demands in March, by updating its mission and boosting its lending capacity.<sup>31</sup> Though a good start, in their current form these changes may yield only short-term fixes, which will in any event come too late to aid African nations in 2023. But further significant changes, such as revising the World Bank’s lending rules, increasing private-sector involvement and monitoring, and accepting more risk, are still under discussion, while it will be harder still to renegotiate African states’ share of voting power in the international financial institutions to address their claims for greater representation.

To date, despite the number of protests at least partly associated with economic conditions in Africa, cost of living issues are not the primary drivers of deadly conflict on the continent. Where violence has intensified over the last year – as in the Sahel and, most recently, Sudan – political factors, grievances over social exclusion and poor governance have been the immediate spurs of fighting. Nonetheless, economic pressures mean that many African governments struggle both to meet their citizens’ needs and to address security concerns. In 2022 alone, Nigeria cut its military expenditure by 38 per cent in response to internal and external economic pressures, weighing on its capacity to respond to future crises.<sup>32</sup> As Crisis Group has previously noted, vigilante groups are increasingly taking on security duties alongside – or in place of – the Nigerian armed forces and police.<sup>33</sup>

Africa’s immediate and urgent needs could be met by ensuring greater liquidity for governments, notably through the recycling of SDRs to forestall debt default, as discussed above. The G7 should also follow through on two funding commitments made at its last summit that, although global in scope, are of particular relevance to African nations: one to raise \$600 billion over five years for infrastructure investment

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<sup>28</sup> “More objective credit ratings could save billions for African countries’ development”, press release, UN Development Programme, 17 April 2023.

<sup>29</sup> Not all economists are convinced that there is a significant anti-African bias among credit rating agencies once fundamentals like growth, level of debt and economic risks are taken into account. They argue that countries in Latin America and North Africa face more disadvantageous ratings – and that simply pressing the agencies to treat Africa more leniently will not solve its borrowing problems. In their view, African governments will need to work with partners, including international financial institutions, on steps to both strengthen domestic economic governance mechanisms and improve global rules and oversight of lenders and credit rating agencies to create a fairer financial system. See, for example, Ethan B. Kapstein, Jonah M. Rexer, Adityamohan Tantravahi and Fangyuan Yi, “Penalties and Premiums in Sovereign Credit Ratings”, Princeton University, 14 August 2022.

<sup>30</sup> William Ruto, “Mo Ibrahim governance conversation”, video, YouTube, 29 April 2023.

<sup>31</sup> “Evolution of the World Bank Group: A Report to Governors”, World Bank, 2023.

<sup>32</sup> Nan Tian et al., *Trends in World Military Expenditure, 2022*, SIPRI, April 2022.

<sup>33</sup> Crisis Group Africa Report N°308, *Managing Vigilantism in Nigeria: A Near-term Necessity*, 21 April 2022.

in low- and middle-income countries, and a second to collect \$4.5 billion for combating global food insecurity.

Dedicated support by the G7 for the African Emergency Food Production Facility – a short-term funding mechanism set up in 2022 under the auspices of the African Development Bank with a goal of increasing continental food production by 30 per cent by the end of 2024 – could help African economies withstand economic shocks and tap their agricultural potential.<sup>34</sup> The G7 could also use the forthcoming summit to amplify their support for the African Continental Free Trade Area, an AU priority in 2023.<sup>35</sup> While almost all African countries have ratified this agreement, only eight met the minimum requirements needed to participate in the Free Trade Area's first phase.<sup>36</sup> The G7 members could throw their political weight behind this initiative and offer more technical support to both the AU Commission and individual countries wishing to fast-track their participation.

Finally, the G7 should heed Africa's calls to have a formal seat at tables where decisions affecting it are taken. The then-G8 began to engage with African leaders in 2000 in part to compensate for how they had been shunted aside in global economic decision-making. Nearly a quarter-century later, such ad hoc acknowledgments of African interest is insufficient. Permanent membership in the G20 – something African countries have demanded in the past, and the U.S. endorsed in 2022 – would be a good first step. G7 leaders should reassure President Azali that they will press this case at the next G20 summit.

### III. Pakistan: Economic Pressures and Political Volatility

Pakistan's interlinked challenges could further destabilise a volatile polity and increase conflict risks in an election year. Political polarisation is at an all-time high, even as a floundering economy fuels discontent with the government. Violent protests followed former Prime Minister Imran Khan's 9 May arrest on corruption charges; his enraged supporters attacked law enforcement personnel and damaged property. Tensions have continued to mount since the Supreme Court fast-tracked Khan's release on 11 May and the Islamabad High Court granted him bail on all pending cases the next day. Accusing the judiciary of pro-Khan bias, the Sharif government said it intends to prosecute scores of Khan's supporters for the 9-10 May violence.<sup>37</sup> Saying the army

<sup>34</sup> "G7 Statement on Global Food Security", 28 June 2022; "Executive Summary – African Emergency Food Production Facility", African Development Bank, undated.

<sup>35</sup> The Free Trade Area is intended to boost intra-African trade and generate an additional \$450 billion in income for the continent by 2035. It aims to do so by gradually eliminating tariffs on African-produced goods, by reducing bureaucratic, infrastructural and financial barriers to trade, and by rapidly accelerating inter-regional commerce. The AU Assembly of Heads of State and Government agreed to designate "The Year of AfCFTA: Acceleration of the African Continental Free Trade Area Implementation" as the African Union Theme of the Year for 2023. "Trade pact could boost Africa's income by \$450 billion, study finds", press release, World Bank, 27 July 2020; "AU Summit 2023: Powering trade through AfCFTA," African Union, 17 February 2023.

<sup>36</sup> As of mid-April, 47 of 54 signatories had submitted their ratification instruments to the AU Commission. Wamkele Mene, "Africa, Tujenge Pamoja, Acceleration of the Implementation of AfCFTA", speech to the African Continental Free Trade Area Business Forum, Cape Town, 16 April 2023.

<sup>37</sup> "Judiciary has become iron shield for Imran Khan, laments PM Shehbaz", *The News*, 12 May 2023.

chief was responsible for his arrest, Khan has threatened to call more protests. The crisis could spin out of control should his supporters clash with troops deployed in key cities.<sup>38</sup>

Political tensions have been mounting since April 2022, when Khan was ousted in a parliamentary no-confidence vote. Convinced that his removal was unfair, and cooked up by a conniving West, Khan's Pakistan Tehreek-e-Insaf (PTI) party has been holding mass protests to demand snap elections. At times, the demonstrations have turned violent. In an attempt to force early polls, Khan dissolved the PTI-led parliaments in Punjab and Khyber Pakhtunkhwa provinces in mid-January. Thus far, the coalition government, led by Shehbaz Sharif's Pakistan Muslim League-Nawaz (PML-N), has refused to alter the schedule for general elections, due in October, or to hold separate provincial polls before then. In so doing, it may have won a few additional months in office. Following Khan's 9 May arrest, the prospects of compromise are even slimmer than they were before. Neither side is likely to back down, with dire implications for stability.<sup>39</sup>

For all the political challenges the government faces, the economy might well be its most pressing problem. Sharif's government inherited an economy beset with structural issues, including unsustainably high levels of domestic and external debt, a low tax base and over-reliance on external finances. Populist measures by Khan's PTI government, particularly fuel and energy subsidies, had put on hold the \$6.5 billion IMF Extended Fund Facility program due to conclude in September 2022. Though Sharif resumed negotiations, election-year calculations appeared to dictate his economic policies, as he hesitated for months before starting to meet IMF demands for moving to a market-based currency, increasing taxes, and ending fuel and power subsidies.

By then, the damage was done. Global agencies downgraded Pakistan's sovereign credit rating to its lowest level in three decades. The delay in reaching an IMF agreement also closed the door to other sources of external funding. Economists say the country now needs \$8 to \$10 billion in fresh commitments from official lenders by late 2023 if the economy is to right itself, an unlikely prospect ahead of a highly contested election that is increasing uncertainty in capital markets.<sup>40</sup> Most projections point to the current account deficit widening in 2023, by which point even \$10 billion might not stabilise the economy.<sup>41</sup>

The result has been a rollercoaster ride. Pakistan's foreign currency reserves plummeted, reaching a low of \$4.6 billion in March, barely enough for a month of imports. Reserves have recovered somewhat since, because of new financing from China, Saudi Arabia and the United Arab Emirates (UAE), but also due to a dramatic decrease in imports, which have become unaffordable for cash-poor countries.

Ordinary Pakistanis are hurting, with many scaling back their consumption, including of basic goods. Inflation, at 38 per cent, is the highest since 1965; the local currency continues to weaken; and exports are declining, raising fears of massive

<sup>38</sup> Amir Wasim, "Former PM Imran blames army chief for arrest episode", *Dawn*, 13 May 2023.

<sup>39</sup> See Crisis Group Commentary, "Pakistan: At the Tipping Point?", 12 May 2023.

<sup>40</sup> Crisis Group telephone interviews, economists specialised in sovereign debt default in emerging markets and Pakistan, 5, 6 and 10 April 2023. Crisis Group interviews, economists specialised in sovereign debt default in emerging markets, Princeton, New Jersey (U.S.), 6 April 2023.

<sup>41</sup> The government projects a \$9.2 billion current account deficit for the next financial year. "CAD projected at \$9.2b for 2024", *The Express Tribune*, 28 April 2023.

layoffs in the export sector.<sup>42</sup> Together with the 2022 floods, inflation has contributed to growing food insecurity, with women and girls, who already lacked adequate nutrition, among the worst affected.<sup>43</sup> Islamabad has expanded social safety nets such as the Benazir Income Support Programme (BISP), which provides cash transfers to women heading households falling under the poverty line.<sup>44</sup> But poverty is still increasing as jobs disappear in the formal economy. Economic growth is projected at less than 1 per cent during the current fiscal year as businesses close down.<sup>45</sup> As the crisis deepens, millions could wind up jobless, sinking into penury.

In the emerging market crises of the 1970s and 1980s, “import compression” – the reduction of imports by developing countries to create trade balance surpluses that allow them to service their debts – eventually reached its limit, giving rise to civil unrest. While it is difficult to know at what point the same might be triggered under present circumstances, an acute and protracted economic crisis cannot be good for domestic stability.

In the absence of the political deal it would take to increase capital inflow, the G7 has limited options. Humanitarian assistance could help fill some gaps, including by supplementing social safety nets such as the BISP as well as through UN agencies such as the World Food Programme. It is promising that Pakistan will be among the first recipients of the G7’s Global Shield funding for climate-vulnerable countries.<sup>46</sup> Yet given the scale of need, member countries and the EU should channel more assistance to the poorest in Pakistan’s flood-affected areas, particularly through women heads of household.<sup>47</sup> The EU has a key role to play by extending its Generalised Scheme of Preferences status plus tariff concessions to Pakistan.

With tempers riding high in the country, and elections approaching, influential G7 countries, particularly the U.S., should urge Pakistan’s competing politicians to agree on electoral rules of the game that allow for a peaceful transfer of power. They should also press the politicians to tone down inflammatory posturing and rhetoric. Khan had accused the government of mismanaging the economy, a charge that likely contributed to the violence following his arrest, given how angry the public is with Sharif’s performance. Meanwhile, Khan’s choice to up the ante by provoking his followers to take to the streets until his release undermines the prospects of either salvaging the economy or healing the polity. Still, as the ex-premier and his party continue to reach out to the U.S. and the EU, among others, in hopes of mending fences they have splintered with their anti-Western conspiracy narratives, G7 countries have an opportunity to encourage Khan to demonstrate statesmanship and flexibility.

The G7 countries can also nudge the Sharif government to steer clear of counter-productive steps as general elections approach. For example, the government could be tempted to resort to populist measures such as unfunded subsidies. G7 states

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<sup>42</sup> “Inflation projected to hit 38pc as flood, energy prices rocket”, *Dawn*, 30 April 2023.

<sup>43</sup> Farahnaz Zahidi, “Lasting toll of multiple climate disasters on Pakistan’s women”, *Dawn*, 23 April 2023.

<sup>44</sup> “Benazir Income Support Programme”, Government of Pakistan, undated.

<sup>45</sup> Pakistan’s finance ministry has projected GDP growth at 0.8 per cent in the current fiscal year. “Govt cuts growth rate to 0.8pc”, *Dawn*, 27 April 2023.

<sup>46</sup> “Pakistan will be among first to receive G7 ‘Global Shield’ climate funding”, Reuters, 14 November 2022.

<sup>47</sup> Crisis Group interviews, development experts, Karachi, March 2023.

should warn Islamabad that the damage to the economy could be enormous if critical economic reforms are abandoned. Pakistan would lose any chance at another IMF bailout in the fiscal year beginning in July and hence inch even closer to a sovereign default. The G7 can exercise considerable leverage in shaping Islamabad's policy choices, particularly through the influence that its members have at the IMF and the World Bank.

At the same time, G7 states need to be realistic about how far they can push Pakistan. Removal of fuel subsidies amid widespread suffering, during a heated electoral campaign, is a recipe for violence in the streets. The G7 members should thus use their clout with the IMF to advocate for favourable loan terms and more flexible short-term conditions, including a change from generalised to targeted fuel and electricity subsidies.

Much, of course, will depend on how Pakistani actors themselves handle the interlocking crises. If the superior judiciary is to regain credibility, the courts should decide cases against Khan solely in accordance with the law of the land. At the same time, the Sharif government and the Khan-led opposition should realise the importance of dialling down rhetoric about the economy. The more it becomes a political football, the worse the economic crisis bequeathed to the incoming administration in Islamabad, and the greater the risk of instability that neither can control. But the real cost will be to Pakistani citizens, who are the main losers in today's zero-sum game.

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#### **IV. Tunisia: Preventing a Slide into Disorder**

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In Tunisia, President Kais Saïed has responded to a dire economic situation by adopting increasingly authoritarian measures over the last year, arresting his political opponents and scapegoating minorities. His actions have yet to lead to widespread disorder, but without steps to restore economic stability and ease repression, the country may face such turmoil all the same. As Saïed is extremely suspicious of Western interference, G7 members should coordinate with the AU – which has been disquieted by his rhetorical attacks on sub-Saharan migrants – and the Gulf Cooperation Council (GCC) to encourage him to desist from further incendiary acts and work closely with the IMF to ease the country's economic plight.

Tunisia has experienced a series of economic shocks in recent years, with COVID-19 and the commodity price spike linked to Russia's war in Ukraine both leaving their marks. Even prior to these blows, the country had seen marked declines in public and private investment and industrial activity for several reasons. The agricultural sector has endured three years of drought, and the 2023 grain harvest is projected to be just one third as large as in 2022.<sup>48</sup> The government – which has to cover (in relative terms) one of the world's largest public-sector wage bills, equivalent to 17.6 per cent of GDP in 2021 – has struggled to meet its domestic financial responsibilities and external debt servicing costs. Energy and food subsidies make up a large chunk of its expenditures and drain resources. In January 2023, Moody's ratings agency

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<sup>48</sup> "Tunisian agricultural union expects 'disastrous' grain season", Reuters, 30 March 2023.

downgraded four Tunisian banks, citing liquidity risks linked to “the absence of comprehensive financing to meet the government’s large funding needs”.<sup>49</sup>

The IMF appeared to offer a way out some time earlier, in October 2022, when it reached a staff-level agreement with Tunis to provide \$1.9 billion of support over 48 months. In return, the IMF demanded that the Tunisian government broaden its tax base (including through taxing the informal sector), reduce spending on civil service wages and subsidies, and pass a law reforming the governance of state-owned companies.<sup>50</sup> The government began taking some of these steps, but not others. Public-sector wages and subsidies are highly politically sensitive: many households rely on both to make ends meet, which would make a new round of cuts deeply unpopular.

Two months later, when the time came to greenlight the loan, the IMF board therefore demurred, due to concerns that the government would not meet all its requirements, and also because, according to European diplomats, Saudi Arabia and the UAE had not transferred the \$1.3 billion they had said they would contribute, likewise fearing a Tunisian default. Saïed has since spoken out about the IMF’s demands, declaring that its “diktats are unacceptable” and accusing it of threatening to deepen poverty in the country.<sup>51</sup> IMF officials have continued to say an agreement is possible and even imminent. They say they are waiting for Tunisia’s approval.

The ball is now in Saïed’s court. In the absence of an IMF loan agreement, Tunisia could lose access to other bilateral and multilateral financing – including EU loans and grants – and be forced to cut its imports due to a lack of foreign exchange. The country would then face worsening food and fuel shortages, and possibly even a banking crisis, with a sovereign debt default expected by mid-August.<sup>52</sup> A further downturn would badly hurt women employed in agriculture, private industry and the informal sector, where they play a prominent, if not predominant, part; economic straits already mean that sex work is sharply on the rise in poorer districts.

Saïed, who consolidated his power when he fired the prime minister and suspended parliament in a “self-coup” in 2021, ascribes the country’s economic woes to a range of internal and external foes.<sup>53</sup> He points the finger mainly at Western governments, as well as what he refers to as domestic conspirators and corrupt political parties.<sup>54</sup> Since mid-February, authorities have arrested prominent politicians, businessmen, trade unionists and others, culminating in the detention of Rached Ghannouchi – the president of the Islamist-inspired An-Nahda party and the last speaker of the

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<sup>49</sup> “Moody’s downgrades four Tunisian banks and confirms one; concludes the review”, Moody’s, 31 January 2023.

<sup>50</sup> “IMF staff reaches staff-level agreement on an Extended Fund Facility with Tunisia”, press release, IMF, 15 October 2022.

<sup>51</sup> Tarek Amara, “Tunisia president rejects IMF ‘diktats’, casting doubt on bailout”, Reuters, 6 April 2023. Some observers have argued that Tunisia was right to reject an impracticable set of IMF conditions. See Alissa Pavia, “Tunisia’s Kais Saïed was right to reject IMF bailout loan deal”, *Foreign Policy*, 19 April 2023.

<sup>52</sup> Erin Clare Brown, “Tunisia’s Kais Saïed balks at IMF bailout”, *New Lines Magazine*, 7 April 2023.

<sup>53</sup> Crisis Group Middle East and North Africa Report N°232, *La Tunisie de Saïed : privilégier le dialogue et redresser l’économie*, 6 April 2022.

<sup>54</sup> “Tunisia: President calls on national guard to confront ‘conspirators’”, *Middle East Monitor*, 1 February 2023.

dissolved parliament – on 17 April.<sup>55</sup> In remarks on 21 February, Saïed widened the circle of blame to sub-Saharan African migrants, whom he accused of aiming to change the nation's demographics. His comments set off a wave of violent attacks on migrants by vigilantes, whose numbers are increasing.<sup>56</sup> These tactics and the country's economic straits notwithstanding, the president continues to enjoy significant popular support, especially among the least well-off, who applaud his rhetoric attributing Tunisia's ills to Westernised wealthy elites.<sup>57</sup>

Protests over the state of the economy have been small thus far, but the government's standoff with the IMF could adversely affect daily life and increase the risk of unrest linked to competition for resources. State security forces, backed by vigilantes, would likely respond to increasing disorder with violence. An economic crisis would encourage more black-market activity, while many citizens – including the best-educated – would likely vote with their feet, attempting the journey to Europe.

Against this backdrop, G7 members have compelling reasons to help Tunisia in its predicament. G7 foreign ministers have urged Saïed to resolve his differences with the IMF, but members of the Group can go further.<sup>58</sup> Since 2015, G7 representatives in Tunis have regularly convened a technical "G7+" format with Tunisian counterparts to discuss security issues. The G7 could explore adapting this format to encompass economic issues, in tandem with high-level discussions among their respective capitals, in an effort to encourage Tunisia and the IMF to strike a deal.

G7 members could also set up an additional, broader consultation mechanism – possibly involving the AU and the GCC – to better align strategies for easing Tunisia's plight, including by trying to broker a deal between Tunis and the IMF. This step would likely encounter pushback: neighbouring Algeria in particular supports Tunisia's stance vis-à-vis the IMF, and it might object to the G7 getting involved, assuming that it will side with the Fund. To be maximally effective, G7 members should frame their engagement with Tunisia primarily in terms of avoiding economic collapse and violence. They should conduct the equally important discussion of human rights and democratic practices – which the president would surely see as a further threat to his authority – strictly behind closed doors.

## V. Haiti: Combining Economic and Security Assistance

While economic headwinds have buffeted many Latin American countries, the situation in Haiti is especially acute. Haiti has experienced a series of economic contractions since 2019, worsened by soaring inflation, as well as political tumult and criminal gang violence.<sup>59</sup> As major donors, G7 members have a central role in supporting the struggling country, in terms of both economic and political stability.

<sup>55</sup> Tarek Amara, "Tunisian judge orders detention of opposition leader Ghannouchi", Reuters, 20 April 2023.

<sup>56</sup> Claire Parker, "Migrants flee Tunisia amid arrests and racist attacks on sub-Saharan Africans", *The Washington Post*, 8 March 2023.

<sup>57</sup> See Crisis Group Report, *La Tunisie de Saïed : privilégier le dialogue et redresser l'économie*, op. cit.

<sup>58</sup> "G7 Foreign Ministers Communiqué", 16-18 April 2023.

<sup>59</sup> Haiti's GDP fell by 1.7 per cent in 2019, 3.3 per cent in 2020, 1.8 per cent in 2021 and 1.7 per cent in 2022. "The World Bank in Haiti: Overview", The World Bank, 31 March 2023.

The economy is liable to shrink again in 2023. Inflation – which was running at 49 per cent as of January – has badly eroded purchasing power, while fuel shortages have created cascading effects on essential services.<sup>60</sup> The country's food security is precarious. The cost of rice has jumped by nearly 70 per cent.<sup>61</sup> Haiti imports most of its grain, including 85 percent of its rice and almost all of its wheat, and it will likely have to bring in less as prices increase (in a typical “import compression”).<sup>62</sup> Remittances are also expected to fall in the coming years with a global recession looming. Experts estimate that Haiti's foreign currency reserves have dropped by more than 90 per cent since late 2021, anticipating further declines to come.<sup>63</sup>

Simultaneously, Haiti's security situation is deteriorating severely. A political stalemate has lingered since President Jovenel Moïse was assassinated in July 2021, leaving the state increasingly unable to address the citizenry's most basic needs. Haitians have not been to the polls since 2016, and the last popularly elected officials left their posts early in 2023. Interim Prime Minister Ariel Henry, who took office after Moïse's death, remains there thanks to the support of an international coalition known as the Core Group (which includes the UN, Brazil, Canada, France, Germany, Spain, the EU, the U.S. and the Organization of American States). Henry signed a deal late in 2022 with a group of opposition figures. This document, known as the 21 December agreement, outlines a roadmap to eventual elections and the design of a transitional government. But the pact does not have widespread support among political parties and civil society, and efforts by third-party mediators to broaden backing for it have failed so far.

Gang-related crime, such as kidnapping and extortion, is rampant, with the payments squeezing even more money out of already impoverished Haitians. The gangs control almost all of the capital Port-au-Prince and its vicinity, and they are expanding their turf in other cities and the countryside. At the government's request, the UN Security Council has discussed the possibility of dispatching a short-term intervention force to restore order.<sup>64</sup> The U.S. has encouraged Canada to lead such a mission, but officials in Ottawa see it as too risky. While support for foreign troops has grown among Haitians as the security crisis continues to worsen, enthusiasm for this option is dampened by a complicated history of interventions, the challenges of fighting gangs who live and operate among civilians, and outspoken resistance from parts of the opposition, which see the request for military assistance as a strategy by the interim government to consolidate its control despite being widely regarded as illegitimate.<sup>65</sup>

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<sup>60</sup> “Inflation”, Institut Haïtien de Statistique et d'Informatique, January 2023.

<sup>61</sup> “Haiti: Request for the Disbursement Under the Credit Facility – Press Release; Staff Report; and Statement by the Executive Director for Haiti”, IMF Staff Country Report No. 2023/080, 7 February 2023.

<sup>62</sup> Crisis Group estimates of Haiti 2021 grain consumption and import using data from the Foreign Agricultural Service of the U.S. Department of Agriculture.

<sup>63</sup> Ibid.

<sup>64</sup> “Letter dated 8 October 2022 from the Secretary-General addressed to the President of the Security Council”, UNSC S/2022/747, 10 October 2022.

<sup>65</sup> “69% des Haïtiens favorables au déploiement d'une force internationale”, révèle un sondage de Diagnostic Development Group”, *Le Nouvelliste*, 2 February 2023. Crisis Group Latin America and Caribbean Briefing N°48, *Haiti's Last Resort: Gangs and the Prospect of Foreign Intervention*, 14 December 2022.



As the situation worsens, threatening social unrest, the country is likely to remain dependent on remittances and international assistance. The IMF granted Haiti a \$105 million emergency loan on 24 January, to alleviate the humanitarian crisis, while advising the central bank to make economic policy changes such as boosting tax collection, increasing the transparency, efficiency and productivity of public spending, and making fuel price reforms.<sup>66</sup> But domestic conditions may render these measures unfeasible. The 2023 UN funding appeal for Haiti is more than double the amount requested in 2022, and the largest the UN has made since the disastrous 2010 earthquake. Its operations in the country are projected to cost \$720 million.<sup>67</sup>

Donors can at least ease Haiti's predicament through timely offers of aid. In Cité Soleil – a slum outside Port-au-Prince where several rival gangs operate – relentless turf wars in 2022 raised food insecurity in the country for the first time to a “catastrophic level”, the highest in the Integrated Food Security Phase Classification, a scale used by humanitarian organisations to measure the severity of food insecurity and acute malnutrition. Increased food assistance helped the 20,000 people who faced “famine-like” conditions, but almost 4.9 million people are still projected to experience “acute hunger” (phase 3 of 5), including 1.8 million people who are in an “emergency” (phase 4). The World Food Programme, which helped provide assistance, has warned that its projects in Haiti are underfunded. Its operating costs also rose significantly in 2022, due to fuel and food price hikes following Russia's all-out invasion of Ukraine.<sup>68</sup>

G7 members should step up their support for Haiti. They should boost their relief budgets. They should also develop long-term plans for aiding small farmers who produce staples alongside their efforts to address the most urgent cases of food insecurity. Other pressing needs include infrastructure projects in the south west – the part of Haiti hardest hit by the August 2021 earthquake, which measured 7.2 on the Richter scale – and support for health care facilities that lack fuel, drinking water and essential medical supplies such as oxygen cylinders.<sup>69</sup>

But helping Haiti with its security needs will also be essential. Gang violence is the main cause of the country's humanitarian emergency, and no relief or development project will have a lasting impact unless the gangs are curbed. Crisis Group has previously noted that an international force of some type may be necessary to stave off the Haitian state's complete collapse. Any such mission will need domestic backing from the interim administration and a sufficiently wide section of the opposition and civil society. The 21 December agreement, which aims to anchor such a consensus, is not yet broad enough. Meanwhile, Canada has all but rejected leading a foreign intervention as had been discussed; a May report by the Committee on Foreign Affairs of the Canadian Congress suggests that the government make “clear it will not partici-

<sup>66</sup> “Haiti: First Review Under the Staff-Monitored Program – Press Release; and Staff Report”, op. cit.

<sup>67</sup> “Humanitarian Response Plan”, UN Office for the Coordination of Humanitarian Affairs (OCHA), April 2023. These funds are meant to cover everything from food assistance, water and sanitation to shelter for internally displaced people, as well as to strengthen health and education programs. “Haiti: Humanitarian Note”, UN OCHA, 31 March 2023.

<sup>68</sup> “Haiti on the brink: hunger levels rising, warns report”, press release, World Food Programme, 7 March 2023.

<sup>69</sup> “Haiti reaches a breaking point as the economy tanks and violence soars”, PBS News Hour, 4 October 2022.

pate in direct engagement in military operations on the ground in Haiti”.<sup>70</sup> Against this backdrop, and given the Security Council’s hesitancy about sending UN peacekeepers back to Haiti, G7 leaders are unlikely to address this topic substantively in Hiroshima.

With no near-term prospect of a multinational or UN force, G7 members should step up their efforts to help Haitian authorities sign up more Haitian national police, upgrade their equipment and improve their capabilities. They should focus on assistance that can help expand special police units, especially the anti-gang task force created in 2022, which has conducted several successful operations. The G7 should also consider contributing to the multi-donor basket fund created by the UN to support police professionalisation, which now stands at just over half its \$28 million target.

Finally, any serious effort to break the cycle of violence will require an economic component, as many young people from poor neighbourhoods join gangs for lack of job opportunities. G7 members should press local and international institutions to roll out security and socio-economic programs simultaneously, since Haitians will not become significantly safer until their livelihoods are also more secure.

## VI. Myanmar: Calling Time on the Junta’s Violence

The presence of Indonesia – the ASEAN chair for 2023 – and Vietnam at the Hiroshima summit is an opportunity to discuss the Myanmar crisis and what the G7 can do to help South East Asian nations resolve it.

The February 2021 coup d’état in Myanmar undid a decade of reforms, triggered a deep economic crisis and put the country on a path toward state failure.<sup>71</sup> Although the military regime is unlikely to fall, its grip is at its most tenuous in decades. Myanmar is facing fragmentation, with the military’s ability to influence events in the periphery significantly eroded, as ethnic armed groups, militias and transnational criminal organisations vie for control of the borderlands. Violence continues to escalate, as evidenced by the regime’s 11 April airstrike on a village in Sagaing Region that killed at least 168 people, mainly civilians – including at least 46 women and 40 children.<sup>72</sup> The regime shows no interest in ending the crisis through dialogue, and the parallel National Unity Government and other resistance elements remain determined to unseat it, by force if necessary.

Young people, particularly women, have been prominent participants in the anti-military resistance, challenging age and gender norms in patriarchal Myanmar society. Yet two years after the coup, women remain largely excluded from formal political power, and their role in the opposition movement often goes unacknowledged.<sup>73</sup>

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<sup>70</sup> Ali Ehsassi and Sameer Zuberi, “The Human Rights Situation in Haiti”, Report of the Standing Committee on Foreign Affairs and International Development and the Subcommittee on International Human Rights, 44th Parliament, 1st Session, May 2023.

<sup>71</sup> Richard Horsey, “Myanmar on the brink of state failure”, speech to UN Security Council, 9 April 2021.

<sup>72</sup> “Screaming people and bodies everywhere: The horrific aftermath of Myanmar junta airstrike that killed 165”, CNN, 13 April 2023; “Press release regarding air strikes on Pazigy village, Kant Balu township, Sagaing Division”, National Unity Government, 16 April 2023.

<sup>73</sup> Crisis Group Asia Briefing N°175, *Breaking Gender and Age Barriers amid Myanmar’s Spring Revolution*, 16 February 2023.

As for Myanmar's ethnic armed groups, they have adopted a range of positions on the crisis – from working toward accommodation with a weakened regime to fighting it – but overall have become stronger since the coup, expanding their influence and territory.<sup>74</sup>

The conflict has had serious humanitarian implications, with one third of the population – almost 18 million people – in need of assistance, more than half of them women and girls.<sup>75</sup> Post-coup conflict has displaced 1.5 million people within the country, and tens of thousands more have sought refuge in neighbouring countries.<sup>76</sup> Meanwhile, any near-term hope of resolving the plight of hundreds of thousands of Rohingya refugees, who fled violence in Myanmar's Rakhine State to Bangladesh, has evaporated.<sup>77</sup>

The junta's strategy for managing and exiting the crisis involves brutal suppression of dissent and general elections to be held under new legislation that privileges the military-established Union Solidarity and Development Party.<sup>78</sup> Regime forces have killed more than 3,200 civilians and arrested many thousands more, some 17,000 of whom remain political prisoners, according to an independent monitoring group.<sup>79</sup> In January, the UN asserted that the military is targeting civilians in conflict-affected areas with "indiscriminate artillery barrages and airstrikes, extrajudicial executions, the use of torture and the burning of whole villages".<sup>80</sup> In March, it highlighted military responsibility for sexual and gender-based violence in interrogation centres and during raids on villages, among other violations.<sup>81</sup>

The junta has tilted the electoral playing field in its favour, but the vote – for which no date has been set – is highly unlikely to go off smoothly. The regime's election commission dissolved former State Counsellor Aung San Suu Kyi's National League for Democracy after the party refused to re-register for the polls as the new legislation requires.<sup>82</sup> It also disbanded important ethnic minority parties, though others have chosen to re-register for now.<sup>83</sup> Conflict as well as elite tensions have already pushed the regime to extend its state of emergency and thereby postpone the election from mid-2023 to November at the earliest; a prolonged delay is possible, if not likely. Nevertheless, given popular anger at the generals, when the vote does take place, intensified violence is likely beforehand, during the polls and afterward.<sup>84</sup>

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<sup>74</sup> Crisis Group Asia Briefing N°175, *A Road to Nowhere: The Myanmar Regime's Stage-managed Elections*, 28 March 2023.

<sup>75</sup> Myanmar Humanitarian Update No. 28, UN OCHA, 6 April 2023.

<sup>76</sup> Myanmar Humanitarian Update No. 29, UN OCHA, 6 May 2023.

<sup>77</sup> Richard Horsey, "Five Years On, Rohingya Refugees Face Dire Conditions and a Long Road Ahead", Crisis Group Commentary, 22 August 2022.

<sup>78</sup> Crisis Group Briefing, *A Road to Nowhere: The Myanmar Regime's State-managed Elections*, op. cit.

<sup>79</sup> Figures from the Assistance Association for Political Prisoners, 7 April 2023.

<sup>80</sup> "Two years after coup, Myanmar faces unimaginable regression, says UN human rights chief", press release, UN Office of the High Commissioner for Human Rights (OHCHR), 27 January 2023.

<sup>81</sup> "Situation of human rights in Myanmar: March 2023", OHCHR Myanmar, March 2023.

<sup>82</sup> Crisis Group Briefing, *A Road to Nowhere: The Myanmar Regime's State-managed Elections*, op. cit.

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

Myanmar is a huge challenge for external actors, who have limited leverage over the junta. Indonesia, as ASEAN chair, has been trying to address the crisis, but it is hampered by deep differences of opinion among member states, by the bloc's requirement that decisions be reached by consensus and by the regime's unwillingness to engage in good-faith diplomacy. Western powers, seeing little chance of influencing the situation and distracted by crises closer to home, have imposed sanctions that cause little pain to their economically insulated targets, though they do attach additional stigma. They have otherwise outsourced the problem to ASEAN.

It is unclear which if any of the region's major powers will apply meaningful pressure on the junta. Beijing remains upset at the generals, feeling that the coup damaged Chinese interests and wary of backing a regime that it sees as deeply distrustful of China. It has been shifting, however, to pragmatic re-engagement, judging that the generals are unlikely to be ousted soon and that Beijing needs to shape events to its benefit. New Delhi is maintaining good relations with the junta, seeing Myanmar's cooperation as important in its efforts to contain insurgency along India's north-eastern border, as well as for geopolitical reasons, principally competition with Beijing.

Difficult as it will be to shape the regime's calculations, G7 members should continue to try. They should use all available channels to press the regime to end its violent oppression, in particular attacks on civilians, as well as to desist from imposing unwanted and non-credible elections. They should also work with ASEAN, and the chair Indonesia, to seek consensus among its members to impose greater costs on Myanmar for its intransigence, rather than adopt the more accommodating stance being pushed by Thailand, Cambodia, Laos and Vietnam.

As G7 president, and as a current Security Council member, Japan in particular should be more outspoken against the junta, rather than inclining toward engagement for geopolitical reasons and in order to preserve commercial interests with Myanmar. It should promote Security Council follow-up on the Council's first-ever Myanmar resolution in December 2022. This text stressed the need to "uphold democratic institutions and processes in accordance with the will and interests of the people [of] Myanmar", demanded an immediate end to "all forms of violence", and underlined the need to "fully protect the rights of women".<sup>85</sup> In this connection, G7 members should increase support for women- and youth-led organisations in Myanmar.

More broadly, outside actors should continue to develop targeted sanctions to stigmatise human rights abusers and, to the extent possible, use the threat of them to deter regime repression. In particular, they should expand targeted sanctions on senior police and military officers most responsible for post-coup abuses, making clear that they will also penalise such individuals for involvement in election-related violence; they should also keep tightening sanctions on military-owned or linked companies. Finally, donor countries should continue to provide, and whenever possible increase, assistance to address both Myanmar's humanitarian emergency and its people's long-term needs in health, education and livelihoods – including for Rohingya refugees in Bangladesh.

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<sup>85</sup> UN Security Council Resolution 2669, S/RES/2669 (2022), 21 December 2022. Japan has also declared that protecting women from violence is an overarching priority for its term on the Security Council. Statement of Shared Commitments, 4 April 2022.

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## VII. North Korea: Considering Incentives for Diplomacy

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The situation in North Korea – hardly a new addition to the world’s list of pressing concerns – is moving into a new phase, due to a combination of Pyongyang’s weapons development and geopolitical shifts.

North Korea has been orchestrating an unusually active missile testing cycle since the autumn of 2021, as it pursues a laundry list of military goals published during the ruling party’s eighth congress that January.<sup>86</sup> It has conducted several rounds of inter-continental, ballistic and cruise missile tests, including – in October 2022 – the first missile since 2017 to overfly Japanese territory en route to the Pacific and – in February 2023 – another that landed inside Japan’s exclusive economic zone just 200km west of Hokkaido.<sup>87</sup> Pyongyang says it will launch a military reconnaissance satellite in the near future, too, and a seventh nuclear test is an ever-present possibility.<sup>88</sup>

Simultaneously, and despite its flagrant disregard for international norms and UN Security Council sanctions, Pyongyang’s geopolitical position is improving. It surely does not welcome the recent South Korea-Japan rapprochement, which has resulted in better coordination between these two countries and the U.S. But its losses on that front are considerably smaller than its gains from Russia’s all-out invasion of Ukraine and burgeoning U.S.-China strategic competition. Thanks to those developments, Pyongyang can now look to both Moscow and Beijing to shield it from new sanctions at the UN Security Council.

But Pyongyang also faces major challenges. The economy remains its biggest headache.<sup>89</sup> The country’s borders are not yet fully open post-pandemic, and trade remains restricted. Hard currency is in short supply for state and private actors alike. The extent of economic distress is hard to gauge, because few people have escaped from the country since 2020, but daily life is certainly difficult, including in Pyongyang, which is home to almost everyone the regime sees as important for its maintenance of power.

Second among Pyongyang’s problems is the loss of a malleable interlocutor in Seoul. Liberal South Korean President Moon Jae-in left office in May 2022, and his successor, Yoon Suk-yeol, is a conservative former prosecutor with a harder line toward the North.<sup>90</sup> Yoon has made it his business to improve ties with Tokyo – at the expense of his flagging popularity – while eschewing calls for talks with Pyongyang. Accordingly, Pyongyang no longer has a willing dialogue partner in Seoul, and no clear intermediary in possible discussions with Washington.

There is little to suggest that North Korea wishes to talk to the U.S. for the time being, anyway, and the U.S. is not falling over itself to get back to the table, either. The

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<sup>86</sup> Christopher Green, “Making Sense of North Korea’s Spate of Missile Tests”, Crisis Group Commentary, 2 March 2022.

<sup>87</sup> “Respected Comrade Kim Jong Un guides military drills of KPA units for operation of tactical nukes”, KCNA, 10 October 2022; “North Korea fires long-range missile into waters off Japanese coast: Tokyo”, NK News, 18 February 2023.

<sup>88</sup> Hyung-Jin Kim, “Kim Jong Un says North Korea’s 1st military spy satellite is ready for launch”, PBS NewsHour, 19 April 2023.

<sup>89</sup> “North Korea pledges to revitalise economy after COVID ‘victory’”, Al Jazeera, 19 January 2023.

<sup>90</sup> Christopher Green, “North Korea Policy under the New South Korean President: More Continuity than Change”, Crisis Group Commentary, 13 May 2022.

Biden administration has made clear it will not entertain summit diplomacy akin to President Donald Trump's in 2018-2019, from which Kim Jong-un's regime reaped considerable political capital. Instead, the U.S. has left the door open to working-level dialogue in principle, but in practice is focusing squarely on sprucing up its alliances in the region, including Japan, the Philippines and, of course, South Korea. The partnership between Washington and Seoul was reinforced when Biden and Yoon signed a declaration in late April, presaging among other things the first South Korean port visit in decades by a U.S. nuclear missile submarine.<sup>91</sup>

The G7 leaders cannot be certain of North Korea's next steps, in part because Pyongyang itself has sent mixed signals. Kim Jong-un threatened in 2022 to abandon the nuclear testing restraint he put in place in April 2018. Yet he conspicuously has not done so. The forbearance would seem to imply a desire to preserve North Korea's strategic flexibility for the time being, the better to maintain good relations with Beijing – which has consistently made clear its objection to nuclear testing – and also to wait and see whether a more amenable president wins the White House in 2024.

As they meet in a country that sits along the flight path of Pyongyang's test-fired missiles, G7 leaders may be frustrated by the lack of tools they have for dealing with the threat to global security posed by North Korea's actions. Though they are a grouping of the world's wealthiest countries, to date, Pyongyang has proven immune to economic incentives, limiting the G7's options. In any case, there are limits to the incentives G7 members are presently willing to offer: Japan has insisted that North Korea get rid of its nuclear capability before it will make technical or economic concessions.

Against this backdrop, a rethink may be in order. While G7 leaders are unlikely to take any radical new positions in Hiroshima, they could at least begin to sketch out a new approach to North Korea that recognises the impasse with Pyongyang – and the uncertainty about its intentions. They could, for example, commit to outlining steps by which Pyongyang would greatly constrain its nuclear and missile development programs in exchange for limited but concrete economic incentives. This shift in emphasis would have the effect of sidelining more rigid approaches that require full denuclearisation as a precondition for talks, even if that remains G7 countries' long-term goal. The chances that this tack will produce a near-term breakthrough may be slim at best, but getting both sides used to the idea that G7 members will now focus their efforts on risk reduction (rather than full denuclearisation) would represent progress in itself.

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<sup>91</sup> "Washington Declaration", press release, White House, 26 April 2023.

## *Conclusion*

The G7 leaders will doubtless emerge from the discussions in Hiroshima declaring that they are united in opposition to Russian aggression and Chinese assertiveness. This message may be necessary for domestic purposes. G7 members should be aware, however, that for many of their counterparts in poor and middle-income countries, the true test of Western powers' world leadership is their capacity to help address economic problems. While the global economy remains precarious, the Hiroshima summit is an opportunity for the G7 to demonstrate that it can handle these challenges – and so reduce the danger of economic disorder leading to new emergencies that would, in turn, strain the G7's diplomatic, humanitarian and crisis management capabilities.

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