

communiqué of December 1987). Of particular importance to Canada, Summit leaders agreed to strengthen further the role of the G-7 Finance Ministers.

Nevertheless, on October 19th, the sudden stock market decline sent a shock wave through the world financial system. It showed how increasingly integrated international financial markets are, and their great vulnerability caused to a significant extent by massive international trade imbalances. These destabilizing imbalances between the United States, Japan, the Federal Republic of Germany, and the newly-industrialized countries of Asia (NIC's) result from a policy mismatch in the early and mid-1980s, when the USA was following expansionary fiscal policies, leading to an increase in imports, while other countries, particularly West Germany and Japan, were pursuing tight economic policies which reduced demand for imports.

On the positive side, it is now clear that the international economy has recovered from the October shock better than expected. Most forecasters believe the industrial countries can enjoy a sixth year of moderate growth with low inflation. There are now signs that as a result of exchange rate shifts, the major external imbalances are starting to correct themselves. Japan, and to a lesser extent West Germany, have taken steps to stimulate domestic demand, while the United States have pursued tighter policies, notably by reducing federal government spending.

The Canadian government's track record on its Louvre Accord commitments is positive. On the macroeconomic side, the Government has steadily reduced the federal budget deficit and has introduced an important program of tax reform. On the microeconomic side the Government has followed an active policy of regulatory reform in the financial, transportation and telecommunications sectors, and of privatization of Crown-owned corporations and assets. The Government is also participating actively in the Multilateral Trade Negotiations, and has negotiated a major Free Trade Agreement with the USA.

As the global economic imbalances are reduced, the challenge for policy makers in the Summit countries is to commit themselves to implement the appropriate combination of macroeconomic and microeconomic measures to manage the transition effectively, without jeopardizing prospects for continued non-inflationary economic growth. The Toronto Summit will provide Summit leaders with an opportunity to help restore confidence by showing credible leadership in that direction.