

saries, were they to want it, once they had fully and irreversibly embraced the transatlantic democratic values we share.

To those who would argue that, with the collapse of the USSR as a superpower we can turn inwards, the response is clear: our interests as well as our values demand our engagement. The group of seven industrialised countries, the G-7, and the USA in particular, have a special responsibility to lead. We have extended the former Soviet Union an olive branch; we must also throw them a lifeline. The goal is to help the countries of Central Europe, the Baltics, Russia, Ukraine and the other republics help themselves.

Neither charity nor cheque-book diplomacy is an option. Only creative economic and political partnership will work. In London, when G-7 leaders met with President Gorbachev in July, we agreed that what was most needed was know-how – to help the transition to free market economies. And many of us enhanced our bilateral technical assistance programmes. We also recognised, at that time, that we would have to provide emergency food and medical aid this winter. And we knew we would probably have to help the USSR and its republics cope with their financial needs in the short term, as we have done with the reforming economies of Central and Eastern Europe,' he added.

'We are face to face now with the test of whether and how we will respond. Prime Minister Major, as host of this year's G-7 summit, is taking the lead in formulating a shared G-7 response to food and medicine needs. Canada is ready to play its full part. We are also prepared to assist in solving the problems of food distribution – a perfect example of where expertise, from farming to marketing, can be applied quickly, inexpensively and beneficially.

But the challenge to the republics of the disintegrated Soviet empire goes far beyond any short-term need for food and medical supplies. Private sectors must be brought to life, governments must be taught how to govern in a free enterprise system and new states must be integrated into the world economy.

Earlier this year, we opened the doors to the European Bank for Reconstruction and Development, (EBRD), expressly for the purpose of nurturing democracy and encouraging private sector development. It was set up to make loans, to guarantee loans and also to invest. We must ensure that this new bank, headquartered in London, is operating at full speed as soon as possible. And we must ensure that it has resources equal to the Herculean task we face. We should therefore remove the limits to the bank's activity in Russia and the other republics.

'We should also work with the newly independent states and emerging republics of the former Soviet empire to make systemic changes so that they can become full-fledged members of the IMF and the World Bank, and gain the benefits from them that we have enjoyed over the past 45 years. Trade is ultimately the most effective way both to provide the resources that are needed and

to begin integrating the new economies into the world trading system.

The growth of prosperity since 1945 is due, in large part, to progressively liberalized international trade and investment under the GATT. Canada has already granted Poland, Hungary, Roumania and Bulgaria preferential tariff treatment, and will extend to Czechoslovakia. But more must be done now to respond to the dramatic needs of the countries of Eastern Europe and the former Soviet Union. Canada is prepared, as part of a coordinated G-7 initiative, to go beyond Most Favoured Nation treatment and provide preferential tariff treatment – to all the new countries of the former Soviet empire, so long as those countries continue their progress to democracy and free economies.

The European Community, in particular, can help by easing market access and developing positive conditions for timely association or membership for the fragile new democracies on their eastern borders. The former communist countries lack a viable economic culture – the ethos, the skills, the instruments, the judicial framework – for sustaining a dynamic market-based economy. Many lack the political culture to withstand the economic and social tensions they face, especially as centrifugal nationalist forces make cooperation more difficult. Economies must be rebuilt from the ground up.

In the aftermath of the second world war, a series of institutions were created to nourish political pluralism and market economies – including the Organisation for Economic Cooperation and Development. What is needed now is a restructured and reoriented OECD, a place where the governments of the new states and republics can learn how to govern in the extraordinary complexity of democracy and free economies. This institution would be the region's policy forum and provide advice on micro-economics, communications, science and technology, energy, social sciences, education and the environment.

None of these steps on its own will transform Eastern Europe and the former USSR into overnight success stories – there are no shortcuts to prosperity. But, over time, the removal of trade barriers; the integration of the new democracies into the global economy; the transformation of the OECD; and, the strong engagement of the G-7 taken together will help transform the economies of the newly independent states into viable and prosperous units.

Perhaps the most difficult question all nations now face is where the money is going to come from to finance the new requirements of humanity. The solution can only be a global system of sharing, of transfers of technology and investment to encourage the progressive development of market economies. Common problems on a global scale require collective solutions. Burden sharing and multilateral cooperation are necessary if democracy and prosperity are to underpin the new international reality.

Forty-six years ago, statesmen gathered from