

Arafat at the Arab Summit in Algiers in November, but did explicitly recognize the right of Palestinians to self-determination in the context of peace negotiations.

After marking time through much of 1988, the Central American peace process showed signs of new life in early 1989. At a Central American summit in El Salvador, in February, Nicaragua committed itself to important domestic political reforms and democratic elections in February of 1990. The other republics agreed to break up the Contra forces, based largely in Honduras, but at year's end, details were still scarce; the civil war in El Salvador itself was, if anything, intensifying. Throughout, Canada worked closely with the parties and the UN Secretary-General, in consultation with Spain and the Federal Republic of Germany, with a view to assisting with any arrangements for international supervision which might be part of a final peace plan.

On the other side of the world, in Southeast Asia, the Vietnamese began a phased withdrawal of their forces from Cambodia, the scene of earlier international supervisory activity by Canada in the 1950s and 1960s. Improved relations between Moscow and Beijing seemed to enhance serious but, so far, inconclusive efforts on the part of both Indonesia and Thailand to foster a political settlement among rival Cambodian factions, a settlement likely to be built, if at all, around Prince Sihanouk. Canada has encouraged this process in its consultations with its interlocutors in the Association of Southeast Asian Nations (ASEAN), and would be willing to assist with any properly configured international supervisory scheme that formed part of a comprehensive Cambodian peace settlement.

During the year under review neither the Commonwealth nor Francophone summits met, but it was eventful nonetheless. Mr. Clark chaired meetings of the Commonwealth's Committee of Foreign Ministers on South Africa in Toronto and Harare, Zimbabwe, in August and February respectively. In September, TV-5, the international French-language satellite television channel, went on the air in Canada, and preparations began for the first Francophone Games; they will be held in Morocco in July 1989.

The fight against international terrorism, particularly in civil aviation, remained a high priority for Canada in 1988/89, and the Lockerbie Pan American plane tragedy was a poignant reminder of the great difficulties and dangers involved. Montreal is the locale of the headquarters of the International Civil Aviation Organization, where Canada has led the search for effective international counter-terrorism measures; this issue was also addressed by leaders at the Toronto Economic Summit in June 1988.

Canada has been in the forefront of international efforts to deal with the spread of AIDS and, during the year, was again a generous contributor to the World Health Organization's Global Program on AIDS. Similarly, Canada took an active part in work to halt international narcotics trafficking, contributed again to the UN Fund for Drug Abuse Control and, as a member of the UN Commission on Narcotic Drugs, participated directly in the elaboration of the December 1988 Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

International economic and financial overview

The world's economy performed better than expected in 1988. Growth in industrialized countries and newly industrialized economies (NIEs) remained buoyant despite the

October 1987 global stock market correction, and growth in the seven countries of the Economic Summit accelerated above the pace set in 1987. Important progress was made towards improved international economic policy co-ordination, and a significant alleviation of external imbalances among the major industrial countries was apparent. More recently, however, rising inflation rates and a stalling in the reduction of external imbalances suggested difficult challenges ahead for policy co-ordination.

With an estimated growth in volume for 1988 of 8.5 per cent, world merchandise trade far outstripped the 5.25 per cent of the previous year and equalled the record high growth rate for the decade, reached in 1984. This achievement marked four consecutive years of accelerating trade growth and six consecutive years in which world trade grew more rapidly than world production. Accompanied by moderate inflation in the industrial countries and strong investment-led expenditure growth, trade-related investment and production were leading sources of growth in the continued global economic expansion. Canada shared in the general growth in the world economy and in global trade in 1988. The Canadian trade surplus declined somewhat, as exports increased in line with global trends, and imports increased more quickly, reflecting the appreciation of the Canadian dollar over the past year.

The high point of Canada's economic relations with other developed countries was the Toronto Economic Summit of the seven major industrialized nations, held in June.

On that occasion, the Prime Minister joined with the leaders of France, U.S., U.K., F.R.G., Japan, Italy and the European Community, in discussions designed to strengthen the world economy and foster economic and political co-operation. The issues dealt with included the progress in multilateral trade negotiations and the reduction of trade barriers, agricultural subsidies, international debt (particularly in the context of the challenges facing developing countries) and relations with the newly industrializing economies of the Asia-Pacific region. The leaders also touched on some key global political questions: the Middle East, South Africa, East-West relations, terrorism, narcotics and the environment. Canada achieved its main objectives for the Summit, including a continued commitment by Summit participants to co-operate in maintaining non-inflationary economic growth while reducing global imbalances.

Following a general election later in the year, legislation implementing the Canada-U.S. Free Trade Agreement (FTA) was passed by Parliament in December, and on January 1, 1989, this historic agreement entered into legal force. Work began immediately to establish the continuing institutions provided for in the FTA, and within weeks, certain industries in both countries were appealing for an accelerated schedule of tariff removals.

Complementary to this major bilateral action in trade liberalization was Canada's active participation in the GATT Uruguay Round, aimed at reducing trade barriers around the world and between GATT's more than 100 members. The Ministerial Mid-term Review Conference of the Uruguay Round, held in December in Montreal, registered important successes in a number of areas, but was compelled to leave certain intractable aspects of trade in agriculture to further negotiations.