

## Executive Summary

Over the past ten years, the world has undergone stunning, fundamental change. The reality and ideology of growth have converged to a considerable degree and on a more global scale than ever before. Moreover, what have long been called universal human and political rights have gradually found wider acceptance in practice. Major, often painful gaps remain, of course. Political and social reforms often do not march in close unison with economic reform over the short to medium term. Nonetheless, at the broadest level, the direction seems to be towards greater commonality - toward the acceptance of an increasingly global basis of certain fundamental beliefs and practices. Yet change inevitably occurs at different speeds in different countries and societies, the result of timing, of different factor endowments, of varying political and social traditions and institutions. A sea change is taking place, visible in outline when viewed from a distance. But the closer one is to the shoreline, the more one is also struck by the diversity of detail in the practical responses of individual countries.

There is no longer the perception among developing countries and the economies in transition in eastern Europe that they share a common approach to relations with OECD countries, nor that individual developing countries share anything close to an equal base or capacity from which to achieve development. These countries recognize their own diversity of circumstances and capacities. For Canada and others, this shift creates its own challenges. On the one hand, the new approach enhances both competitive pressures and the prospects for more balanced and creative economic partnerships. On the other hand, the diversity among developing countries and the transition economies has become sharper, requiring greater policy flexibility in the responses of developed countries.

This Paper identifies two broad groups of developing countries. Zone 1 economies most immediately come to mind in discussions on the "coming anarchy" thesis. These countries are typically very poor. More than that, their economies are stagnant. Even more critically, Zone 1 countries often suffer from insufficiently articulated political structures, feeble and inconsistent economic management and a narrow resource base. Political stability is often fragile and governments are frequently weak and, in some instances, simply dysfunctional.

The institutional structures and philosophy of society of Zone 2 economies can vary considerably. Unlike their Zone 1 counterparts, however, these countries have passed a critical threshold of political and economic institutional viability. With exceptions, Zone 2 countries demonstrate greater respect for political rights and civil liberties. Moreover, they are committed to sounder fiscal and monetary policies, rely