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THE
LONDON
ECONOMIC
SUMMIT

JULY 15-17, 1991

BACKGROUND
INFORMATION



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**THE
LONDON
ECONOMIC
SUMMIT**

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CANADA

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External Affairs and
International Trade Canada

Affaires extérieures et
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Prime Minister BRIAN MULRONEY



Born March 20, 1939, in Baie Comeau, Quebec, Brian Mulroney is a lawyer and former corporate executive.

Mr. Mulroney holds a bachelor of arts (honours) degree in political science from St. Francis Xavier University, Antigonish, Nova Scotia, and a bachelor of law degree from l'Université Laval at Québec.

On June 11, 1983, Mr. Mulroney was elected leader of the Progressive Conservative Party of Canada. He subsequently won election to the House of Commons in a by-election on August 29, 1983, in the riding of Central Nova, Nova Scotia.

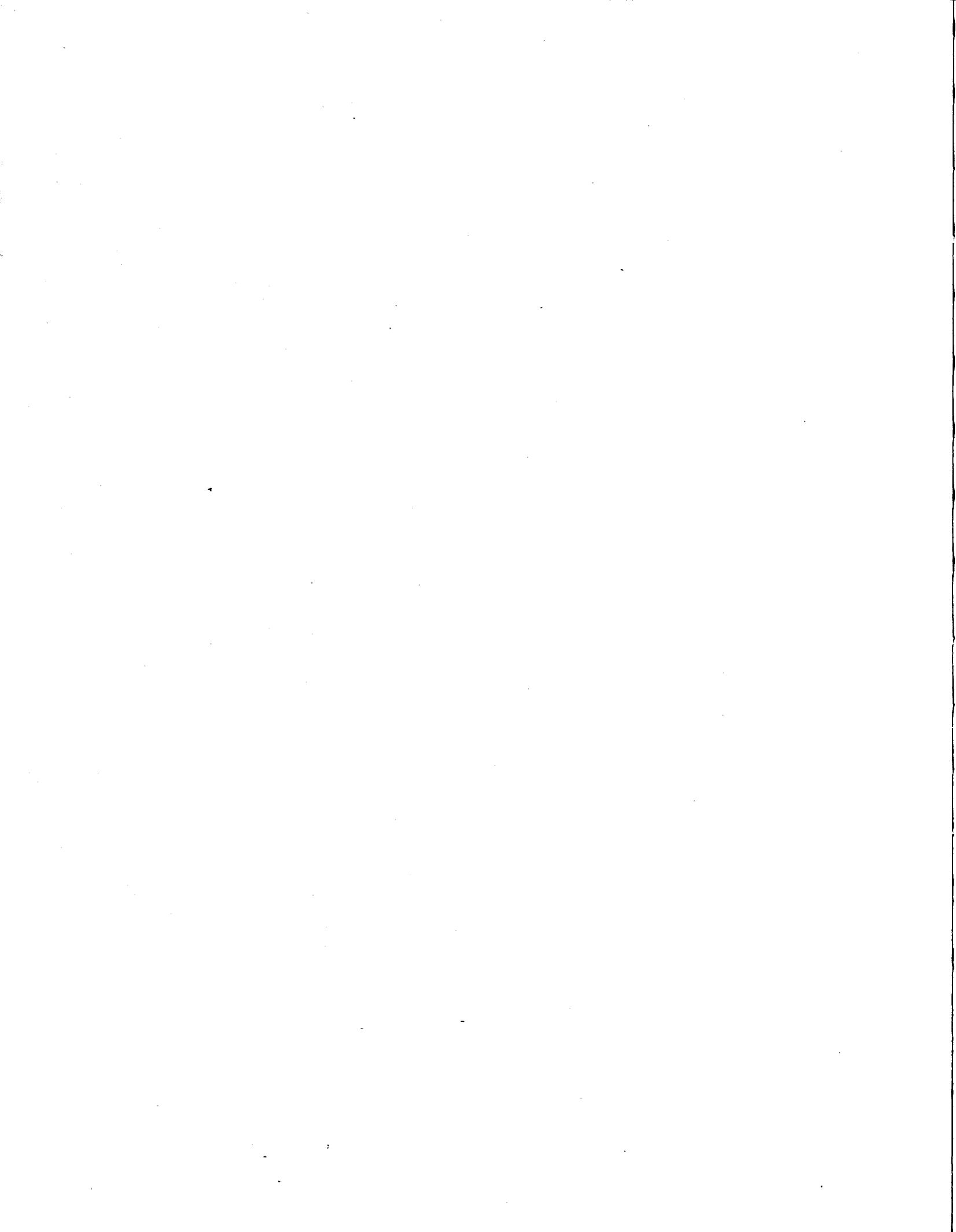
In the general election of 1984, Mr. Mulroney was elected in the riding of Manicouagan, Quebec. His party won the largest number of seats in Canadian parliamentary history. He was reelected in the riding of Charlevoix, Quebec, on November 21, 1988, and led his party to form a second majority government.

Mr. Mulroney has been active in public life and community affairs for many years. In May 1974, he was appointed to the Cliche Royal Commission investigating violence in the Quebec construction industry.

In 1976, he was a candidate for the leadership of the Progressive Conservative Party. Later that year, he joined the Iron Ore Company of Canada as executive vice-president; a year later, he became company president.

Mr. Mulroney has been active in charitable organizations such as the United Way of Greater Montreal, the Big Brothers Association of Canada, the Quebec Association for the Mentally Retarded, the Canadian Juvenile Diabetes Foundation and the Montreal Heart Fund.

Mr. Mulroney is married to the former Mila Pivnicki; they have four children: Caroline, Benedict, Mark and Nicolas.



Secretary of State for External Affairs BARBARA McDOUGALL



Born in Toronto on November 12, 1937, Barbara McDougall studied political science and economics at the University of Toronto, where she obtained a bachelor of arts (honours) degree in 1960. She became a chartered financial analyst in 1973.

Mrs. McDougall began her career as an economic analyst in banking. She has also worked as a market research analyst and as a business journalist on national magazines and television.

For 10 years, Mrs. McDougall was an investment analyst specializing in forest products. From 1976 to 1981, she was vice-president of a securities firm. From 1982 until entering

federal politics in 1984, Mrs. McDougall was executive director of the Canadian Council of Financial Analysts.

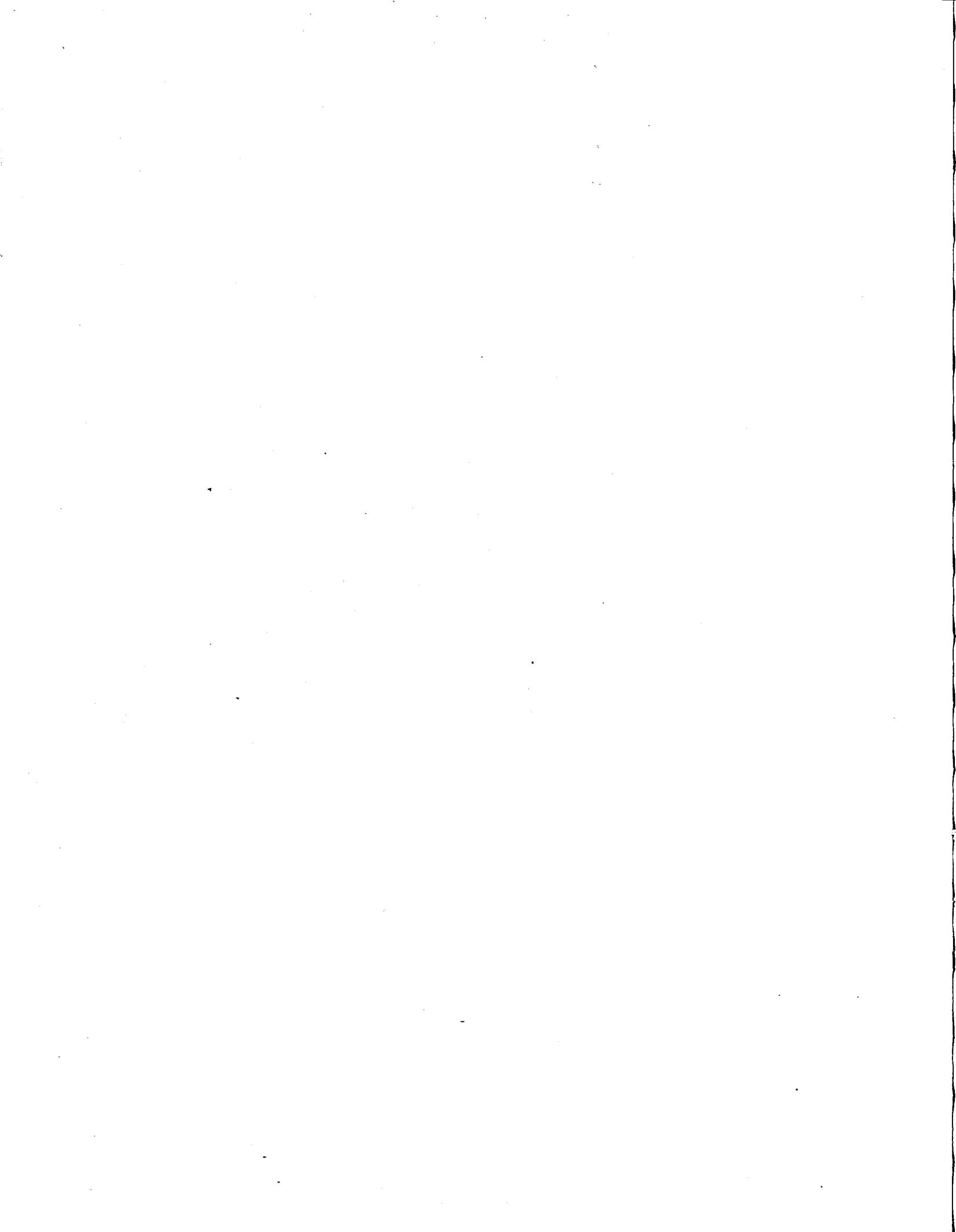
Mrs. McDougall was first elected to Parliament in September 1984, representing the Toronto riding of St. Paul's. She was reelected in the same riding in November 1988.

In September 1984, Mrs. McDougall was appointed minister of state (finance). Between 1986 and 1988, she held three cabinet posts at the same time: minister of state (privatization), minister responsible for the status of women, and minister responsible for regulatory affairs.

Mrs. McDougall was minister of employment and immigration from March 1988 until her appointment in April 1991 as secretary of state for external affairs.

She chairs the Cabinet Committee on Foreign Affairs and Defence Policy. She is a member of the Planning and Priorities Committee of Cabinet and a member of the Cabinet Committee on Canadian Unity and Constitutional Negotiations.

As a volunteer, Mrs. McDougall has chaired the Salvation Army Red Shield Appeal in Toronto and was a director of organizations providing life skills training and serving senior citizens, and was vice-chair of the Elizabeth Fry Society of British Columbia.



Deputy Prime Minister and Minister of Finance DON MAZANKOWSKI



Don Mazankowski, a native of Viking, Alberta, was born on July 27, 1935, and educated locally. A businessman and farmer, he became involved in provincial and federal Progressive Conservative associations and was elected Member of Parliament for Vegreville, Alberta, in 1968.

In Opposition, Mr. Mazankowski served as transport critic. In 1979, he was appointed minister of transport and minister responsible for the Canadian Wheat Board in the Clark government.

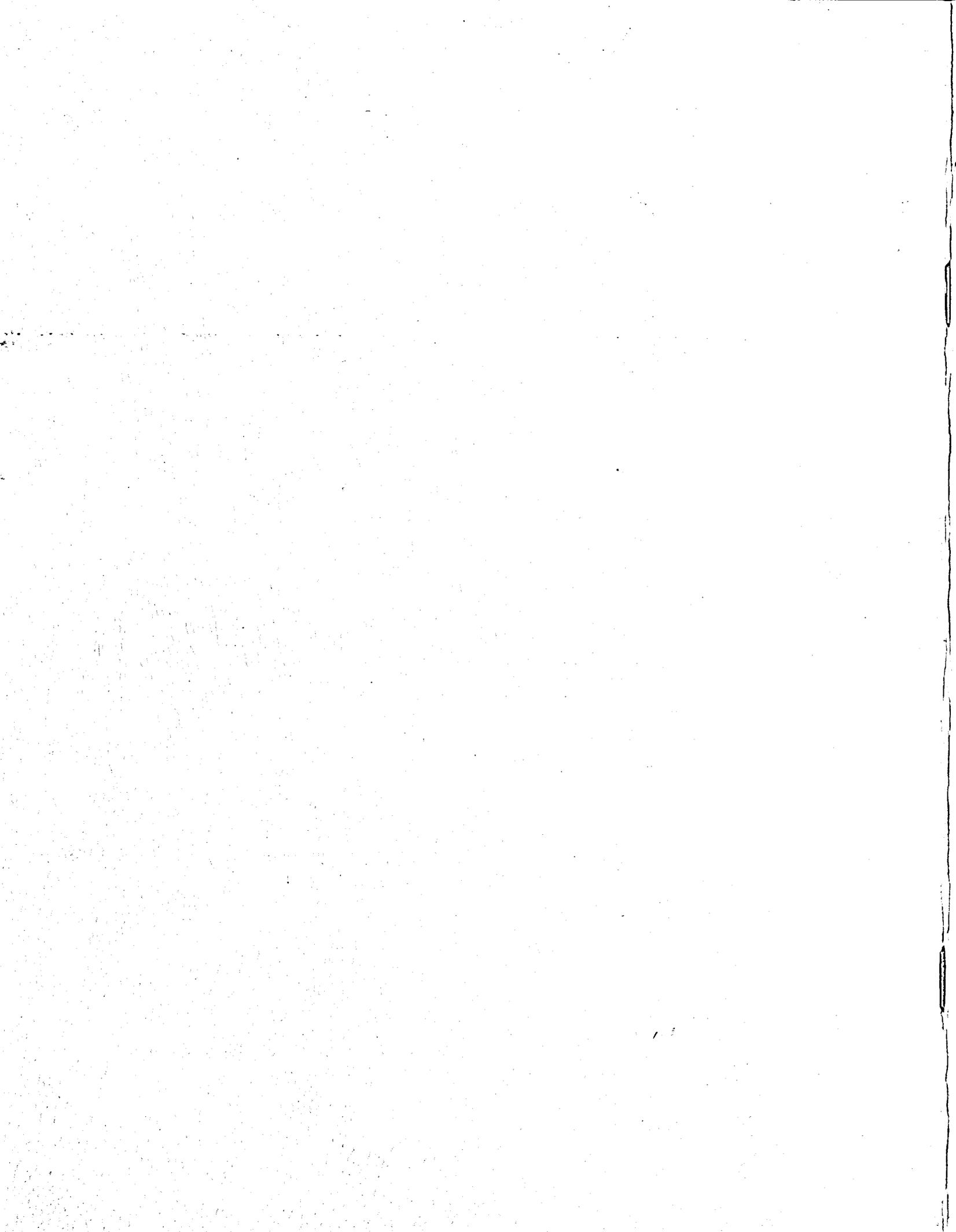
As a member of the Mulroney government, Mr. Mazankowski became minister of transport in September 1984. He also served as acting minister of industry, science and technology. In 1986, Mr. Mazankowski simultaneously became deputy prime minister, government House leader and president of the Privy Council. During that year he initiated and developed the Western Diversification Program.

Mr. Mazankowski was Treasury Board president from August 1987 until March 1988, when he was appointed minister responsible for privatization and regulatory affairs. Later that year, he moved to the post of minister of agriculture.

In the agriculture portfolio, Mr. Mazankowski spearheaded legislation designed to bring economic stability to Canada's agricultural community.

Mr. Mazankowski was named finance minister in April 1991. His posts on several cabinet committees include vice-chair of Priorities and Planning and of Security and Intelligence.

Mr. Mazankowski is married to Lorraine Poleschuk and is the father of sons Gregory, Roger and Donald.



LONDON ECONOMIC SUMMIT

This year's Economic Summit, the 17th annual meeting of leaders from the seven major industrial democracies (G-7 countries) and from the European Community, will take place in London, July 15-17, 1991.

Significant economic and political events have transpired since the Houston Economic Summit of 1990. These will form the backdrop of the leaders' discussions during the course of their meeting.

Prominent on the agenda of summit leaders will be the rapid and serious deterioration of conditions in the Soviet Union. Leaders will likely review the prospects for initiatives that might be undertaken to assist President Gorbachev in achieving his domestic reform objectives. Mr. Gorbachev's planned meeting with leaders following the summit will provide an opportunity for a full discussion of these matters.

The global economic downturn over the past 12 months ended eight years of record growth for most summit countries. Signs of a turnaround began to emerge, however, in the spring and early summer of this year. Leaders will exchange views on the need to sustain a medium-term strategy for steady, non-inflationary growth.

Leaders can be expected to review the progress in the Uruguay Round of multilateral trade negotiations by the General Agreement on Tariffs and Trade. They will discuss means of bringing this GATT round to a successful and early conclusion, and they will consider what lies ahead on the international trade agenda.

Globalization is generating profound changes in the patterns of economic growth, leading to greater interdependence among nations. This, in turn, is prompting the evolution of international — as well as domestic — institutions, policies and practices as countries seek to adapt to new economic realities. Increasing economic efficiency has consequently become a concern of the G-7 countries, and leaders will exchange views on reforms that might lead to improved global economic performance.

The Gulf War accentuated the political fragility and economic disparities of the region, and highlighted the perils to world peace posed by the unchecked proliferation of conventional and unconventional arms and delivery systems. It also drew the world's attention to the benefits of an enhanced collective-security role for the United Nations in resolving disputes. These interrelated concerns will constitute an important set of items on the summit agenda.

Reflective of the prominence the issue has achieved on domestic fronts over the past decade, the environment held an important position on the agendas of the two previous summits, in Paris and Houston, and will do so again in London. Leaders are expected to discuss the state of negotiations in preparation for the United Nations Conference on Environment and Development to be held in Brazil in June 1992.

The Gulf War's profound impact on the environment of the Middle East may prompt discussions on ways to prompt quick international reaction to large-scale environmental disaster. Leaders may also encourage work under way in a variety of fora in addition to the United Nations — which broadens further the multilateral approach to the environment.

Summit leaders will review the process of economic and political reform under way in Central and Eastern Europe and assess the effectiveness of assistance to the region to date. This has included providing direct balance-of-payments assistance, trade credits and guarantees, technical assistance, and debt relief; and establishing a regional lending institution, the European Bank for Reconstruction and Development.

In the developing world, there are encouraging trends toward realistic, market-oriented economic policies in many countries. Leaders will likely review this trend and the impact of globalization (especially the prospects of a successful Uruguay Round) on development prospects, and the evolution of the international debt strategy. They may

also explore means of developing more realistic terms for the poorest countries.

The world's continuing reliance on oil was again highlighted by events in the Persian Gulf. This has raised a number of questions, including the prospects for strengthened emergency response capabilities, greater transparency in energy markets (perhaps through international dialogue) and heightened environmental and safety standards. Leaders may wish to review these and other associated issues.

The issue of narcotics was discussed at both the Paris and Houston summits: summit leaders called for effective international action to combat the international trade in illicit drugs and to eradicate money laundering. At London, this remains a priority issue. Leaders will review progress on joint international programs established during the past two years, and consider further joint initiatives, including stronger East-West co-operation on the problem of drugs.

ECONOMIC SUMMITS

The annual Economic Summit is the most visible element of an extensive, ongoing process of international consultation and co-operation among the group of seven major industrial democracies known as the G-7 countries.

Discussions held during the summits and at meetings of the Group of Seven finance ministers (G-7) are closely linked to work in other international fora, including the International Monetary Fund, the World Bank, GATT, and the Organization for Co-operation and Economic Development. Through these institutions, governments seek to manage an increasingly interdependent world economy.

The London Summit will be the culmination of a process that started several months earlier. Issues on the summit agenda are reviewed at several advance meetings of "sherpas," the personal representatives of summit leaders. Through their preparatory meetings, the sherpas seek out areas of agreement that may form the elements of a summit consensus on main issues. Prime Minister Mulroney's personal representative is Derek Burney, Canadian ambassador to the United States.

History of Economic Summits

The first Economic Summit took place in Rambouillet in 1975. The president of the Republic of France invited his colleagues from the United States, the United Kingdom, the Federal Republic of Germany, Japan and Italy to discuss the major economic issues of the day in an informal and relatively unstructured environment. Canada joined in 1976 at the Puerto Rico Summit; the European Community joined in 1977 in London.

Canada earned a seat at the summit table on the strength of its economy, which stands seventh among the Western industrialized countries, and its traditional role on the international scene. Canada has a great deal to gain and much to offer the group because

of its strong dependence on international trade and the wealth of its natural resources.

The first summits focussed on economic recovery. The participating heads of state and government agreed on measures to support stable economic expansion and to reduce high levels of unemployment, without increasing inflationary pressures. At these summits, it was recognized that structural changes had to be made in national economies in order to cope with rising oil prices and the new economic realities.

In the early 1980s, the fight against inflation became a primary concern. The leaders agreed on the need to restrain public borrowing and to contain growth of the money supply. They increased their efforts to harmonize their policies in order to expand, reinforce and maintain the recovery that followed the 1981-1982 recession. They have since sought to ensure continued economic stability and prosperity by reducing inflation, interest rates and budget deficits.

In view of the growing emphasis given to the co-ordination of economic policies by the countries participating in the summits, it was agreed in Tokyo in 1986 that the Canadian and Italian finance ministers would join those of the U.S., France, the U.K., Germany and Japan to form the Group of Seven. Members of the G-7 meet between the summits to discuss the economic performance and policies of their respective countries. This strengthens economic and monetary co-operation and guarantees Canada an active participation in international economic discussions affecting its interests.

While economic issues have traditionally been uppermost on the agenda, political issues have gained some prominence over the years. Positions and initiatives developed at the summits serve as catalysts for discussion in various international fora. This has resulted in significant progress in areas requiring multilateral co-operation.

Such was the case, for example, with international terrorism following the 1978 Bonn Summit, and with drug trafficking and money laundering, as a result of the 1989

Paris Summit. At the Ottawa Summit, in 1981, the particular focus on relations between developed and developing countries contributed towards the preparation of the North-South Summit in Cancun. With the growing importance placed on the environment since the Toronto Summit of 1988, priority has been given to linking economic development and environmental protection.

Canada and the Economic Summits

In a world characterized by increasing interdependence and by the globalization of markets for goods, services and capital, Canada is especially sensitive to the decisions and initiatives of the other leading industrialized countries. Economic summits give it a unique opportunity to defend and promote its political and economic interests.

Since the topics discussed by the summit leaders are elevated to international attention, the summit process enables Canada to have a direct influence on the international agenda as well as the policies of the G-7 countries. Thus, since 1976, Canada played a leading role in advancing such issues as trade, environment, human rights (including apartheid in South Africa), narcotics, East-West relations and relations with the developing countries.

Liberalization of trade

Summit leaders regularly discuss matters related to the further liberalization of trade and market-oriented trade practices. Canada, with its partners, is attempting to end protectionism and trade-distorting measures.

At the 1986 Tokyo Summit, on the initiative of Canada and with the strong support of the United States, the leaders expressed for the first time their concern over the subsidy practices and protectionist measures that are distorting world agricultural markets. As a result, agriculture became one of the main issues of the Uruguay Round of multilateral trade negotiations, launched in September 1986. Though the problem has yet to be solved, real progress toward a solution has been achieved.

Environment

Canada has always worked to ensure that the environment occupies a prominent posi-

tion on summit agendas. Some of its concerns include the depletion of the ozone layer, the greenhouse effect, acid rain and marine pollution.

At the 1988 Toronto Summit, Canada spoke out strongly for the principle of sustainable development and saw it endorsed by all participants a year later at the 1989 Summit of the Arch in Paris. This endorsement added considerable impetus to the concept: it was adopted at the Dakar Francophone Summit (1989), at the Meeting of Commonwealth Heads of State and Government (Kuala Lumpur, 1989), at the OECD Ministerial Meeting of 1990, and at the Environmental Conferences of The Hague and Bergen (1989 and 1990). A number of Western countries, including Canada, the U.K. and the Netherlands, have since announced environmental plans based on the principle of sustainable development.

In the interests of sustainable development, Canada invited the Paris Summit participants, the international agencies, in particular the OECD, and other countries to work toward developing new environmental indicators that would make it possible to accurately depict environmental conditions and to take into account the impact of economic policies and industrial and trade decisions on the environment.

A preliminary set of indicators was unveiled on the eve of the OECD Conference of Environment Ministers in January 1991. Last fall, an OECD working group published a report on the use of economic instruments in preparing environmental policies.

The OECD is continuing its work in this field, paying special attention to the practical aspects of certain questions, for example, climatic change and packaging. Another expert group studies how natural resource prices are set in order to ensure that the real cost of resource depletion is reflected.

Two Canadian initiatives received the support of participants at the 1990 Houston Summit. First, the leaders agreed on the need for a strategy to combat land-based marine pollution. An initial conference of experts in Halifax in May 1991 brought the problem to the attention of the international community and promoted a global approach for the protection of the ocean environment. The experts will meet again before the end of 1991 to prepare a declaration and an ac-

tion plan for adoption at the June 1992 UN Conference on the Environment and Development.

Also at the Houston Summit, the heads of state and government agreed that unregulated fishing activities must end and that resource conservation regimes must be respected. Since then, participants in the Conference on the Conservation and Management of the Living Resources of the High Seas, held in Saint John's in September 1990, agreed on how to apply the rules of international law to the high seas fishery.

As well, the European Community has accepted eight of the 11 decisions on conservation made by the Northwest Atlantic Fisheries Organization. In addition, the organization's surveillance and monitoring systems, which are essential for guaranteeing catch reductions, are being improved.

Developing Countries

Canada, which maintains close ties with a number of developing countries through the Commonwealth and la Francophonie, has always seen that the interests of the less-favoured countries are considered at the summits.

At the Tokyo Summit in 1986, Canada supported proposals to resupply the International Development Association and increase the capital of the World Bank to respond to the growing needs of the developing countries. The development association received \$14.75 billion in 1989.

In 1987, at the Venice Summit, Prime Minister Mulroney played a leading role in seeing that participants addressed the special needs of the poorest countries of sub-Saharan Africa, especially their debt burden. This laid the foundation for an agreement to strengthen the structural adjustment facilities of the International Monetary Fund.

At the Toronto Summit in 1988, a Canadian proposal enabled participants to agree to re-schedule the public debt of the poorest countries involved in internationally approved structural adjustment programs. The approach enables public creditors to choose

one of various options in accordance with their legal framework or budget situation: reduced interest rates commonly combined with shorter deadlines, longer repayment periods at market rates, partial eradication of debt-servicing obligations during the period of consolidation, or a combination of these options.

The "Toronto Terms" have effectively contributed towards reducing the debt burden of the poorest countries. Twenty countries, mainly in sub-Saharan Africa, have benefited so far. Since the need to alleviate debt is still great, creditors are now considering enhancing the Toronto terms through the Paris Club.

Terrorism

Canada played a leading role in the Bonn Declaration on Air Piracy in 1978 and the Tokyo Declaration on International Terrorism in 1986.

At the Bonn Summit, the seven heads of state and government pledged to suspend air connections with all countries refusing to extradite or prosecute air pirates or to return hijacked aircraft, and to interrupt all flights made by the airlines of these countries. They also invited the governments of non-participating countries to adopt the same policies.

At the Tokyo Summit, they announced their refusal to export weapons to countries that support terrorism and their intention to limit the size of diplomatic and consular missions of these states. They prohibited the entry into their countries of all persons suspected of terrorist activities, and pledged to improve immigration and extradition procedures to expedite the transferral of such individuals.

These undertakings were reiterated and reinforced in Venice (1980 and 1987), Ottawa (1981), London (1984) and Paris (1989). In addition, the proceedings of the Summit of the Arch in Paris in 1989 led to the signature in April 1991 of a convention on marking plastic explosives.

GLOBAL ECONOMIC SITUATION

World economic growth slowed to 2.1 per cent in 1990 — from 3.3 per cent in 1989 and 4.5 per cent in 1988. An earlier run-up in real interest rates associated with a tightening of monetary policy in a number of countries contributed to the slowdown. Another factor was the Iraqi invasion of Kuwait in August 1990, which led to temporarily higher oil prices and a weakening of consumer and business confidence.

The restructuring of the Central and Eastern European economies saw a pronounced economic downturn in these countries, while growth in the Soviet Union was hampered by unfavourable domestic developments.

In the industrialized countries, cyclical differences became more accentuated in 1990. The economies of North America and the United Kingdom slipped into recession, while output growth slowed in France and Italy. By contrast, output grew rapidly in the F.R.G. and Japan, leading to tight labour and product markets.

Despite a significant slowdown in activity in North America and in some European countries, inflation (as measured by the consumer price index) in major industrial countries as a group rose from 4.2 per cent to 4.7 per cent in 1990. This reflected, in part, the rise in oil prices associated with the Gulf crisis.

However, with the return of oil prices to pre-crisis levels and the low level of activity in some countries, there are signs that inflation is moderating in several countries. Yet inflationary pressures remain a concern in the F.R.G., where wages have increased markedly and growth remains robust.

Developments in financial markets reflect the different cyclical positions of the major industrial countries. The slowdown in activity in the U.S., Canada, and the U.K. has led to a significant reduction in short-term interest rates in these countries.

In France and Italy, interest rate reductions have been relatively modest. This reflects, in part, constraints imposed by the Exchange Rate Mechanism (a system in which

participants have agreed to maintain their exchange rates within bands around predetermined central rates).

In the F.R.G., interest rates remained firm throughout 1990 and increased towards the end of the year and into the first quarter of 1991. In Japan, interest rates increased throughout much of 1990 before stabilizing in the last quarter.

Short-term interest differentials in favour of the dollar continued to narrow in 1990 and, in the final quarter, shifted in favour of the yen and the deutsche mark. However, the dollar strengthened in the first half of 1991, due in part to increased confidence in the U.S. economy,

Current account imbalances among the G-3 (the U.S., Japan, and the F.R.G.) continued to narrow in 1990. The German current account surplus declined for the first time since 1980 as strong domestic demand, including increased fiscal stimulus associated with unification, boosted import growth, while the slowdown in the rest of Europe and North America moderated export growth.

The Japanese surplus narrowed for the fourth consecutive year, reflecting strong import growth arising from buoyant domestic demand and the higher value of oil imports associated with the rise in oil prices. In the U.S., the current account deficit declined for the second year in a row as the lower exchange rate and weaker activity at home spurred exports and eased import growth.

Global economic growth, after slowing significantly in recent quarters, is expected to pick up this year. North America, the U.K. and other countries in recession are expected to recover, while growth, albeit slowing somewhat, will continue in other industrial countries, notably in Japan and the F.R.G.

The main factors underpinning the expected recovery are significant declines in interest rates in recession-bound economies, the return of oil prices to pre-Gulf crisis levels, and the recent rebound in consumer and

business confidence, which was severely affected by the Gulf crisis. Indeed, there have been increasing signs of a resumption of growth globally.

Progress has been made in several key areas in recent years (i.e., tax reform and privatization), effectively supporting and interacting with macroeconomic policies in many countries. Prospects for sustained non-inflationary growth will be enhanced significantly if

monetary and fiscal policies in industrial countries continue to be directed towards medium-term objectives of price stability and further fiscal consolidation.

Further progress in several areas, particularly a successful and substantive completion of the Uruguay Round of multilateral negotiations, remains essential for a vibrant world economy.

GLOBAL POLITICAL SETTING

The elation that followed the collapse of the Berlin Wall in 1989 has given way to a more sober and realistic understanding of the enormous challenges the world faces in strengthening the international order. The influential role of existing multilateral political and economic institutions in shaping and responding to events received particular attention this past year.

In Central and Eastern Europe, young democracies are confronted both with the challenge of fundamentally altering their economic systems and industrial capacity, and with public expectations of rapid and relatively painless change.

Economic dislocation has inevitably accompanied the transition to market economies, and democratic institutions and principles are not yet firmly entrenched throughout the region. The more slowly evolving trend towards democracy and market-oriented economies in Latin America and parts of Asia and Africa has been accompanied by similar strains.

Pent-up tensions between nationalities and ethnic groups are being released as the sterile stability that was imposed by the Cold War gives way. Ethnic frictions are leading to domestic crisis in Yugoslavia, for example.

The Soviet Union, which is at the centre of much of the change, is undergoing its own transformation. The rapid economic decline and tense relations between the central and republican governments demand economic and political reforms of enormous scale and complexity. A continuation of a more co-operative Soviet foreign policy may well depend on the success of internal reforms in the U.S.S.R.

The Iraqi invasion of Kuwait in August 1990 tested the role of the United Nations in a world recently freed of superpower rivalry. Its success in bringing together a widely diverse coalition of nations to deter naked aggression has revived hope that the UN will, in future, be able to play a role more closely linked to the original ideals of its founders. The United Nations can now

play an important role, along with other multilateral institutions, in addressing the dangers of conventional arms transfers and the proliferation of weapons of mass destruction.

Making international political co-operation more effective has become an imperative for the 1990s. The international response to the plight of Kurdish refugees and to the enduring reality of mass starvation in the Horn of Africa is evidence of the present limits to effective international co-operation and to multilateral agencies' ability to cope. Greater efforts must be made to grasp the opportunity before the world community to make international political co-operation work.

At a time when opportunities for global political and security co-operation are growing, the international community's commitment to multilateral economic disciplines may be waning. The General Agreement on Tariffs and Trade has had a decisive influence on the spectacular increase in world trade over the past 40 years, yet a successful conclusion to the Uruguay Round of multilateral trade negotiations is by no means certain.

Failure to secure momentum for further trade liberalization through GATT's Uruguay Round of multilateral trade negotiations could harm political and economic relations between states. Without progress in this GATT round, a rules-based and open trading system may give way to unilateral and protectionist measures.

There are many issues that nations, acting alone, cannot solve. These include the deteriorating environment, trade in narcotics, and health pandemics — including the AIDS epidemic in Africa and cholera in Peru. Another issue, previously low on the international agenda, is mass migration associated with environmental ills or with political instability. Endemic poverty and underdevelopment also persist.

There is progress, however, on several regional issues that once defied solution. Reform in South Africa makes it possible to foresee the end of apartheid and the eventual removal of sanctions. A resolution of political tensions in Central America appears

to be under way. And, in the Middle East, some progress may be achieved in resolving long-standing regional tensions.

Equally important, major economic powers such as the F.R.G. and Japan are increasingly active internationally. As well, institutional and structural responses to change are being devised. Examples are the European Bank for Reconstruction and Development

and an invigorated Conference on Security and Cooperation in Europe.

The many dramatic events of the past 12 months show how political, economic and environmental issues are closely related, and why joint international action is needed to address them. In London, summit leaders will be exploring this record with a view to strengthening the international order.

INTERNATIONAL TRADE AND THE URUGUAY ROUND

Canada has an open economy. Over a quarter of its gross domestic product and some three million Canadian jobs depend directly on exports.

In 1984, the government adopted an agenda for economic renewal that sought to improve economic efficiency and competitiveness by reducing distortions and barriers to the operation of markets at home and abroad. Major initiatives were undertaken in tax reform, deregulation, privatization, investment, and trade policy. Further review of structural policies in the fields of research and development, competition and other business laws, and skills development are part of an expanded competitiveness agenda.

This economic strategy, based on structural reform, has resulted in three major Canadian trade policy initiatives since 1986:

- the negotiation and implementation of a comprehensive free trade agreement with Canada's principal trading partner, the United States;
- Canadian participation in the Uruguay Round of multilateral trade negotiations by the General Agreement on Tariffs and Trade — intended to reduce barriers to world trade and to improve trade rules; and
- the launching of trilateral free-trade negotiations with the U.S. and Mexico.

All three initiatives are designed to transform the Canadian economy by progressively eliminating domestic and international impediments to competitiveness so the domestic economy can adapt to the profound changes in world production, investment, technology and trade.

Canada's highest international trade priority is the successful completion of GATT's five-year Uruguay Round, which Canada hopes will lead to

- a world trading environment with sufficient stability, predictability and transparency to inspire the confidence of exporters and importers, thus encouraging

job-creating investment and economic growth;

- better access for Canadian exports, particularly for agriculture, food, and resource-based products; manufactured goods (including high technology products and advanced transportation and communications equipment); and services;
- fairer trade rules to protect Canadian producers against capricious behaviour abroad and injurious import competition at home;
- strengthened procedures for resolving multilateral disputes and the institutional framework for new multilateral trade agreements, possibly including a world trade organization; and
- the full integration of developing countries into a renewed world trading system.

These overarching objectives are mirrored in the trilateral negotiations that Canada is about to commence with the U.S. and Mexico for a North American free trade agreement.

Since GATT's eighth round of multilateral trade negotiations began in Punta del Este, Uruguay, in September 1986, Canada has played a leading role among the 102 GATT contracting parties. For example, Canada hosted the first-ever mid-term ministerial meeting in Montreal in December 1988, which was held to consolidate overall progress in the round and to provide impetus for the detailed negotiating phase now in progress.

Both through GATT and as a member of the Cairns Group of agricultural producers, Canada continues to play a key role in the difficult negotiations on liberalizing and reforming agricultural trade. Successful negotiations will help competitive Canadian producers to maintain and expand their markets abroad, rely less on government assistance, and be more responsive to market signals.

Canada has made a major and ambitious proposal concerning tariff and non-tariff barrier reductions, including a proposal for global free trade in forest products, fisheries, a range of chemicals and high technology areas like telecommunications and data processing equipment.

Canada also attaches high priority to achieving comprehensive multilateral agreements governing subsidies and countervail, which should provide an important basis for further discussions on this issue as set out in the Canada-United States Free Trade Agreement.

Extension of multilaterally agreed rules to cover services, trade-related intellectual property and trade-related investment is important from Canada's standpoint as well, to ensure both improved market access and a more stable, less unilaterally based trade environment.

As one of its major contributions to the negotiating process, Canada put forward a major initiative with respect to a new world trade organization. Premised on a comprehensive outcome of the Uruguay Round, the new organization would build on GATT and provide an institutional framework for the management of the new multilateral trade agreements, including the revised GATT, the codes covering trade rules and new services agreements, as well as those on intellectual property and investment.

It would be underpinned by a strengthened and more unified dispute settlement mechanism across the whole range of trade agreements and would place the new global trading system in a position where it can interact effectively with the International Monetary Fund and the World Bank to ensure a greater coherence of global trade, financial and monetary policies.

The work of Canadian negotiators continues to be supported in Canada by consultations with the International Trade Advisory Committee and 13 sectoral advisory groups on international trade, as well as with the provincial governments. In addition, there are regular and extensive consultations and information exchanges between federal and provincial ministers, and between their officials dealing with trade matters.

Intensive negotiations, which culminated in an impasse at the Brussels ministerial meeting in December 1990, have now resumed in Geneva in order to complete the Uruguay Round as quickly as possible. Substantial obstacles in all negotiating areas remain, with particular difficulties in agriculture, services and market access. Important technical work has nevertheless been under way during the course of the winter and spring of 1991 to clarify and advance issues in these and all other areas.

The intensified negotiations to be undertaken during the summer and autumn of 1991 will be based on a streamlined negotiating structure involving seven, rather than 15 groups as before. Underlying the work of each group will be the knowledge of what is at stake: the prospect of up to \$3 trillion of expanded world-wide trade over the 1990s if the Uruguay Round is successful. The alternative is lost growth and investment and, possibly, a fragmented international trading system.

In a related measure to eliminate trade-distorting subsidies, Canada initiated negotiations for reforms to the rules of the OECD Export Credits Consensus. The proposed reforms would drastically reduce the use of aid credits to support export sales and eliminate subsidies in commercial export credits. In June, the OECD ministers called for the completion of negotiations by the end of the year. Previous summits have advanced international trade negotiations and specific trade-liberalizing arrangements by providing political momentum and clear direction to negotiators.

Decisions taken at the Bonn Summit in 1978 gave an impetus to the successful completion of the Tokyo Round; the Toronto Summit in 1988 endorsed strongly the Canada-U.S. Free Trade Agreement and the single market in Europe; while the Houston Summit committed leaders to a personal role in completing the Uruguay Round. All summits since the Tokyo Summit in 1986 have stressed the importance of agricultural reform as part of a successful Uruguay Round. Both the Paris and Houston Summits endorsed the negotiations to reform the OECD Export Credits Consensus.

PROSPERITY- COMPETITIVENESS

Profound global economic and political developments over the past two decades have led to major shifts in the patterns of economic growth in the world. An information revolution has been matched by the rise of new and complex problems, such as population growth and migration, and environmental concerns, which stretch across borders and require a much broader approach for their resolution.

Countries are responding to these new challenges by adapting their institutions and adopting co-operative policies intended to maintain and promote their long-term growth. In recognition that increasing economic efficiency is an issue of broad interest to all seven summit countries, leaders this year will be exchanging views on economic reforms through which efficiencies can be realized.

The globalization of production and investment flows has greatly increased international competition and the interdependence of national economies. The advent of worldwide markets and the trans-border decision span of multinationals has resulted in a more dynamic and uncertain trading and investment environment. Countries now compete for scarce and mobile investment and technology flows.

Canada, like other summit countries, is concerned with its long-term economic competitiveness and the ability of the Canadian economy to sustain steady growth and increase prosperity for its citizens. In the rapidly evolving global economy, Canadian producers are facing stronger competition in industrial and resource products from summit partners as well as from emerging competitors in the developing world.

Some recent indicators suggest there are concerns about our competitiveness. Assessments for 1990 from the Geneva-based World Economic Forum indicate Canada has dropped from fourth to fifth place in overall competitiveness among members of the Organization for Economic Co-operation and Development. Over the past 15 years, Canada has fallen to fifth from second place

among summit nations in manufacturing labour productivity.

Competitors such as the F.R.G., Italy and France have caught up to, and surpassed, our productivity levels. Canada remains highly reliant on the U.S. market for three quarters of our exports and the bulk of manufacturing exports. Apart from our auto trade with the U.S. and a few other notable exceptions, for example, in the telecommunications and aerospace sectors, Canada continues to be an exporter of resources to the rest of the world.

These facts raise fundamental questions about our productivity, relative to our summit partners. All of us are examining various domestic institutional and policy reforms necessary to achieve steady, non-inflationary long-term growth.

These include the need to build on improved access to, and performance in, emerging global markets and product niches; to develop technological excellence and to apply technology innovatively in the workplace; to remove barriers to efficiency in domestic markets; to enhance the skills levels and work opportunities for the workforce; and to nurture the co-operative business climate that favours entrepreneurship, investment and partnership between business, labour, government and the academic community.

The government recently announced its intention to launch a major initiative to develop a broadly based and integrated approach to competitiveness. Building on a national consultative process, a consensus will be sought among all key stakeholders on an ambitious set of goals in key areas of learning, science and technology, productivity improvement, and domestic and international trade liberalization.

There is a large amount of competitiveness-related work currently under way in Canada and elsewhere. A number of studies have been published recently, including by Coopers Lybrand and Kodak Canada. The federal government is supporting an in-depth study on the strengths and weaknesses of Canada's competitiveness, commissioned by

the Business Council on National Issues. The Prime Minister has asked the Economic Council of Canada to carry out a major study on the impact of governments on Canadian competitiveness.

National competitiveness policies also have an international impact. Co-operation among the summit countries will be important in addressing mutual competitiveness challenges of the 90s — ranging from more open markets, through negotiations under the General Agreement on Trade and Tariffs, to strategic technological partnerships and co-operation in learning.

Increased integration of summit economies can give rise to potential problems. Differences in perception, about how each other's and the world economy works, influence the respective national goals for competitiveness and the methods of policy co-ordination.

Trade liberalization creates strong pressures for domestic adjustment, which in turn places a premium on domestic institutions and decision-making processes that respond quickly and effectively to global change.

Finding the right balance of incentives, effort, perseverance, innovation and, above all, domestic competition ensures a strong foundation for long-term productive growth and economic progress. Summit countries are committed to enhanced co-ordination of macro-economic policies and to liberalized trade that promotes reform and adjustment.

This co-operation will be extended into important areas such as science and technology, and education and training, to meet domestic growth objectives while responding to the pressures of adjustment and international change.

ENVIRONMENT

Environmental problems such as climate change, ozone depletion, acid rain, the degradation of oceans (including the conservation of living marine resources) and deforestation have been prominent issues at recent summit meetings. These problems pose serious threats to human health, the global economy and our natural heritage.

In March 1990, the Canadian government released "A Framework for Discussion on the Environment," which outlined the environmental problems confronting Canadians and explored the options available. Following a series of extensive public consultations, the government released the Green Plan in December 1990, a comprehensive policy framework and action plan for implementing sustainable development in Canada.

The Green Plan establishes eight national environmental policy goals together with resource allocations over six years. It establishes firm targets and schedules over a range of domestic and international environmental issues. It is based on the principle of partnership among stakeholders (e.g., federal and provincial governments, business, labour, indigenous groups). The plan will be reviewed annually.

The demand for, and political endorsement of, the Green Plan reflects the marked increase and intensification of public and government concern over environmental problems over the past two decades. Twenty years ago, environmental problems were perceived as primarily local, e.g., urban air pollution and water contamination. With the emergence of acid rain as an international issue, the problems have come to be seen as transboundary and regional in scope.

It is now apparent, given issues such as ozone depletion and climate change, that the environment is a global issue requiring global solutions. This has led to continuing efforts at more effective international co-operation, in which Canada has played a leading role.

The 1972 Stockholm Conference on the Human Environment marked the emergence of the environment on the international

scene, and resulted in the establishment of the United Nations Environment Program to co-ordinate and promote action on environmental issues within the UN system.

In June 1992, in Brazil, 20 years after Stockholm, the UN will be hosting a major conference on environment and development, which will be attended by heads of government or state from the entire United Nations. The conference is expected to develop an international environmental agenda for the 21st century and clarify the links between the environment and development.

A successful conference in Brazil, involving developed and developing countries as full partners, will be crucial to the resolution of global environmental issues. Developing countries will be looking for additional resources and transfers of technology to support their environmental efforts.

While the Brazil conference represents the culmination of years of effort on a wide range of environmental issues, there are many examples of international and regional environmental agreements already in force. In North America, for example, Canada and the United States successfully concluded a bilateral air quality accord in March 1991.

In Europe, three regional agreements on transboundary air pollution were concluded between 1979 and 1988 by the countries of the Economic Commission for Europe (of which Canada is a member): a framework convention on air quality (1979); and, under that convention, two protocols to reduce emissions of sulphur dioxide (1985) and nitrogen oxides (1988). Work is now underway on the third protocol in this series to deal with volatile organic compounds, a key ingredient of smog.

The Vienna Convention on the Protocol of the Ozone Layer, which recognizes the nature of the ozone depletion problem, was negotiated in 1985; associated with it, the Montreal Protocol on Substances that Deplete the Ozone Layer was negotiated in 1987. The Montreal protocol is action-oriented and involves programs for moving

away from the use of ozone-depleting substances. In June 1990, a multilateral fund was established under this protocol to help developing countries phase out CFCs and other ozone-depleting substances by the year 2000.

In 1988, Canada signed the Basel Convention on the Transboundary Movement of Hazardous Wastes, developed under the auspices of the United Nations Environment Program. This agreement is designed to control the export of hazardous wastes through an international management system.

The convention aims to establish control measures that reduce to a minimum the generation of hazardous wastes; treat hazardous wastes as close as possible to their point of generation; ship hazardous wastes only to countries with adequate treatment facilities; and introduce a system to track and control the export and import of hazardous waste. The convention is expected to come into effect in 1991 or 1992, once the necessary ratifications are obtained.

The Report of the World Commission on Environment and Development (the Brundtland Commission) in April 1987 marked a turning point in international environmental discussions. It placed the concept of sustainable development squarely on the international agenda and emphasized that the environment and economic growth are not only compatible but interdependent.

Linkages between the environment and population, energy, agriculture, urbanization and debt were also highlighted. This report has had a wide impact on worldwide approaches to sustainable development, and environmental and economic policy making.

Recent economic summits have provided an important political stage from which to provide global environmental leadership. When the summits of the 1980s dealt with the environment, their approach focussed on the identification of problems and the need for additional scientific research.

At the 1988 Toronto Economic Summit, however, a substantive discussion on the environment took place, resulting in an endorsement of the concept of sustainable development. This signalled the emergence of the environment as a key international political issue and Canada's prominence in helping to set the international agenda.

In the months following the Toronto Summit, political momentum for dealing with the environment was maintained through a number of crucial international meetings which took place at the head of government or state level.

Prime Minister Mulroney participated in the Hague Environmental Summit of March 1989, which focussed on climate change. This summit resulted in a declaration that called for the development within the UN system of an institutional authority — either by strengthening existing institutions or by creating an institution to deal with climate change. It also called for financial assistance and technology transfers to developing countries.

In 1989, the leaders of la Francophonie and the Commonwealth also issued declarations on the environment, which promoted further action. These declarations particularly emphasized the need for global solutions supported by new and additional financial resources and transfers of technology to developing countries to support their environmental efforts.

At the 1989 Paris Economic Summit, leaders focussed considerable further attention on the environment as an international priority. The communiqué called for action in areas such as climate change; the environment-economy interface (including environmental indicators, at the suggestion of Canada); sustainable forestry; and oceans.

The Paris Summit also noted that financing and transfers of technology would be required to help developing countries deal with past damage and to encourage them to take environmentally desirable action.

At the 1990 Houston Economic Summit, leaders continued to give priority to the environment. They called for the completion of global negotiations on climate change and forests by the time of the June 1992 UN Conference on environment and development; they sought the development of a strategy on land-based sources of marine pollution; and they emphasized the need to conserve and protect living marine resources, respect conservation regimes and strengthen regional fisheries organizations.

Also at the Houston Summit, leaders emphasized the importance of preserving biodiversity and indicated that their governments

would participate actively in this area. (Biodiversity is the wealth and variety of genetic material, species and ecosystems.)

As well, the Houston Summit endorsed ongoing work by the Organization for Economic Co-operation and Development on environment-economy linkages, economic instruments and market-oriented approaches, and environmental indicators. Leaders recognized the need for increased financial and technological assistance to developing countries in resolving global environmental problems.

OECD environment ministers met in January 1991 and developed an environment strategy for the 1990s. It focuses on the integration of economic and environmental decision making; improved environmental performance domestically; the strengthening of international co-operation, including the provision of additional support to developing countries; and the negotiation of global environmental conventions.

Four Canadian initiatives were adopted: country environmental policy reviews; good environment practices for governments; an examination of the relationship between trade and the environment; and the continuation of OECD work on environmental indicators. Ministers also encouraged the OECD to intensify its work on economic instruments, including "green taxes" and proper resource pricing.

The 1990s will be an important decade for the negotiation of major global environmental conventions and instruments. On climate change, previous international work on ozone dovetails with the major effort now underway to address the climate change problem.

A group of scientific and technical experts, the Intergovernmental Panel on Climate Change, was established under the auspices of the World Meteorological Organization and the United Nations Environment Program to investigate the problem. The panel released a major report at its August 1990 meeting. This was adopted at the Second World Climate Conference held in the fall of 1990 in Geneva. Based on this work, negotiations on a framework climate change convention began in February 1991.

Discussions on a global biodiversity convention began under the auspices of the UN En-

vironment Program in February 1991. A major issue for the 1991 convention will be the transfer of bio-technology to developing countries. Discussions on a global forestry agreement or instrument are also underway. Forestry principles are being developed for endorsement by the 1992 UN conference on environment and development, which could subsequently lead to a global agreement.

On oceans, Canada hosted a major intergovernmental experts meeting on land-based sources of marine pollution in May 1991. The Halifax meeting was attended by more than 90 experts from 35 countries, five UN agencies and five non-governmental organizations.

Participants agreed to support a comprehensive approach to oceans and to reconvene later in 1991 to prepare a declaration and action plan on land-based sources of marine pollution for endorsement at the 1992 UN conference in Brazil. This could lead to an integrated approach to oceans management and an eventual convention or agreement to give impetus to yet further international action.

A major component of oceans management is the protection and conservation of living marine resources through sustainable fisheries management, strengthened regional fisheries organizations and respect for the conservation regimes of coastal states.

The successful conclusion of negotiations on global environmental conventions will require careful examination of financial and institutional mechanisms. The Montreal Protocol Multilateral Fund will provide funding for ozone protection and is administered by the World Bank, the UN Environment Program and the UN Development Program.

For climate change and forests, biodiversity and marine environment, a global environment facility has been established by participating countries and is administered under a similar tripartite arrangement led by the World Bank. Experience with these funding arrangements will provide useful input into the financing and institutions discussions at the UN conference in June 1992.

International awareness and concern on environmental issues has never been greater. The UN conference in Brazil in 1992 will provide a landmark opportunity to focus increased attention, consolidate past progress

and provide momentum on difficult negotiations on global environmental issues.

The London Economic Summit may represent the last opportunity before June 1992 for summit leaders to have an impact on

this process. The Green Plan marks the domestic context in which Canada will be responding to these global environmental challenges.

ECONOMIC RELATIONS WITH DEVELOPING COUNTRIES AND PROBLEMS OF INDEBTEDNESS

Canada has always believed that summits must address the major concerns of developing countries, and has been in a position to champion their cause because of the quality of its aid program, the strong support it has shown for increased debt relief for the poorest countries, and its decision to provide official development assistance by means of grants rather than loans.

Canada has willingly assumed this role because of its membership in numerous multilateral organizations, including United Nations development organizations and international financial institutions, as well as its membership in both la Francophonie and the Commonwealth, certain members of which look to Canada to reflect their concerns in the summits.

Assistance to developing countries has been an integral facet of Canadian foreign policy for over 25 years. In 1988-89, Canada was the seventh largest donor in absolute terms, providing 4.1 per cent of global development assistance. On the basis of gross national product, we were the second most generous, after France, of the summit countries, with 0.43 per cent of GNP.

In 1991-92, Canada's development assistance budget will reach \$2.75 billion a year, and almost \$18 billion will be spent on development assistance over the next five years. All of Canada's development assistance is provided on a grant basis.

General Situation

The developing world has made significant economic progress in the last three decades. From 1965 to 1985, there has been a rising trend for incomes, consumption, life expectancy and education, while child mortality has been declining. Nonetheless, over one billion people in the developing world continue to live in poverty.

The reduction of global poverty remains the fundamental objective of development assistance. But global economic and environmental interdependence is transforming the relationship between developed and developing

countries in ways that are having a profound effect on how development assistance is approached.

First, development issues can no longer be seen in North-South terms. The developing world faces a great many economic and developmental challenges that require diverse responses from the developed world.

For example, in the poorest countries of Africa, high population, debt, drought and famine are compounded by civil strife, weak infrastructure and underdeveloped human potential. Meanwhile, the "adjusting" economies of Latin America are working their way from under heavy debt loads, and the newly industrializing economies of Asia have experienced extraordinary growth over the last decade.

Second, the context for development has changed dramatically in the last decade due to the increasing globalization of economic, financial and trade issues. Global conditions define the availability of external financing, the cost of debt, the value of exports, the volume of investment flows, technology transfers and the accessibility of markets. Together, all of these factors outweigh the value of all development assistance.

Third, the implications for the global environment of industrialization in the developing world and the integral link between the environment and development prospects have forced new ways of looking at development. In particular, the developing world is playing a greater role in shaping the international environment agenda through preparations for the UN Conference on Environment and Development to be held in June 1992 in Brazil.

Poverty, hunger, high population growth and inadequate human resource development have a direct relation to deforestation, over-fishing, soil depletion and erosion, and pollution. As well, developed and developing countries alike share an interest in protecting the ozone layer, biodiversity, climate change and the marine environment.

Fourth, the end of superpower rivalry and the vindication of free market economics in the late 1980s have affected the way we approach development. The ideological battle played out in many developing countries has eased, although a residue of fear remains that the developed world's concern for the developing world will be diverted by the needs of the Soviet Union and Eastern Europe.

These changes have resulted in a growing consensus among both the developed and developing countries that sustainable development must be the central principle of development assistance. Sustainable development is development that is economically, politically, environmentally, socially and culturally sustainable over the longer term.

Further, there is a general agreement that for sustainable development to occur, there is a need for more market-oriented economic policies, for more open global trading regimes, for more reliance on the private sector, for global efforts to address environmental issues, and for more pluralistic political systems.

Difficult policy choices are being made by many developing countries to set their economies on the path of growth and development. Canada and other summit countries remain committed to maintaining adequate resource flows and debt reduction in support of these efforts.

But more importantly, summit leaders are committed to creating a global economic environment conducive to sustainable growth and development in both the industrialized and developing worlds. Success is possible only if the right policies are in place both in developing and developed countries.

The Problem of International Indebtedness

In 1982 the developing country debt crisis became the focus of international attention, and economic summits have played a major role in developing the international debt strategy. While external indebtedness is not solely or even primarily responsible for underdevelopment, economic growth and efforts at reform in many developing countries are seriously constrained by heavy debt. The strategy that evolved supports economic ad-

justment that provides the framework for sustained growth.

There is broad agreement that the primary responsibility for the solution of the debt problem rests with the debtor countries themselves. It is also recognized that there is no single solution to the problems of the debt-distressed. At the Williamsburg Economic Summit in 1983, governments of creditor countries agreed to manage the debt crisis on a case-by-case approach, recognizing the unique circumstances of each debtor country.

Canada has been a leader in providing aid in the form of grants and in providing official development assistance debt relief to low-income and lower-middle-income countries implementing economic reforms. In 1978, Canada forgave its official development assistance loans to the least developed countries; in 1987, we forgave similar loans to the francophone and Commonwealth countries of sub-Saharan Africa.

In 1990, Canada did the same for countries of the Caribbean Commonwealth. A number of other donor countries, including France, the U.K. and the F.R.G., have followed Canada's lead in forgiving the official development assistance debt of many sub-Saharan countries. Since 1986, Canada has provided all bilateral official development assistance in the form of grants.

When countries experience difficulty in servicing their official bilateral debt, they come to the Paris Club to reschedule their obligations. The traditional approach of the Paris Club has been to defer payment obligations by providing longer repayment periods. Paris Club reschedulings are conditional on the debtor country undertaking an adjustment program supported by the International Monetary Fund.

The debt situation of the poorest countries has been of special concern to Paris Club members. This is the result of strong evidence that the poorest countries require special treatment to improve their prospects for economic development.

The Toronto Economic Summit of 1988 endorsed proposals that the Paris Club provide concessional treatment for the debt of these countries. Under the "Toronto terms," individual creditor countries can choose from a menu of options, including partial elimination of the debt, longer repayment periods,

or rescheduling at below market rates of interest. Canada played a key role in achieving consensus among creditors on this package.

The Toronto terms have made a meaningful contribution in providing debt relief to the poorest countries. Some 20 countries have benefited thus far. However, it has become apparent that, in certain cases, these terms have been insufficient, and Canada has been a leading advocate of the need to provide a significantly greater degree of relief to the poorest countries.

The Houston Economic Summit called on the Paris Club to review options for lower-middle-income countries. In September 1990 creditors agreed on more generous treatment for these countries, including longer repayment periods and limited voluntary debt conversions. In April 1991, the Paris Club reached an historic debt reduction agreement with Poland to support that country's transition to a market economy. Similar treatment was later provided to Egypt to respond to that country's unique circumstances.

In 1989, building upon suggestions from Canada, France and Japan, the U.S. administration advanced the Brady Plan, under which international financial institutions would provide resources to debtor countries to facilitate debt reduction operations by the commercial banks. Access to this financing is conditioned on commitment by the debtor

country to structural adjustment policies aimed at re-establishing economic viability.

So far, Mexico, Venezuela, Costa Rica, the Philippines, Morocco and Uruguay have benefited from Brady plan packages. In Mexico, the debt restructuring agreement has had a positive effect on economic recovery, including significant inflows of investment. There are indications of a return to international capital markets by Mexico and other Latin American countries.

In keeping with the case-by-case approach, each Brady plan package has had distinctive features designed to meet the diverse interests of debtor countries and banks.

The London Summit and the Debt Problem

The London Economic Summit is expected to review the evolution of the debt strategy and the major developments that have taken place over the past year. Canada continues to emphasize that the most important element in the debt strategy is the need for debtor countries to adopt sound economic policies. However, it may not be sufficient.

In some countries the debt burden may be so severe that even with appropriate economic management, there is little chance of achieving sustainable growth or servicing debts. In this context, the London Summit is expected to endorse more favourable treatment for the official debt of the poorest countries.

ARMS PROLIFERATION

The proliferation of weapons of mass destruction has been the subject of growing concern in the international community in recent years. Canada, like many other countries, has worked to establish effective and universally accepted international controls to prevent the further spread of these weapons and their delivery systems. Some progress has been made. Nonetheless, much remains to be done.

The recent conflict in the Persian Gulf, Iraq's possession of ballistic missiles and its declared readiness to use chemical weapons highlighted the urgent need for attention to this problem.

Prime Minister Mulroney announced a two-point Canadian proposal in February 1991. First, he proposed that appropriate international fora strengthen their non-proliferation regimes covering various classes of weapons and delivery systems. The prime minister also suggested there be high-level meetings to address the proliferation of nuclear weapons, chemical weapons and biological weapons (together referred to as weapons of mass destruction), as well as missile technology and conventional weapons.

Nuclear weapons represent the greatest threat to the international community. Many years of effort by many countries, including Canada, have made significant strides toward preventing their spread.

The 1970 Treaty on the Non-Proliferation of Nuclear Weapons says that states with no nuclear weapons now may not acquire them, but assists non-nuclear-weapon states seeking nuclear technology for peaceful purposes. The treaty also commits parties to negotiate an end to the nuclear arms race and to achieve nuclear and general disarmament.

Canada is a staunch supporter of the non-proliferation treaty and has encouraged all states to sign it. There are now over 140 signatories. France recently announced that it has decided, in principle, to sign. Despite this broad adherence, one nuclear weapon state, China, and several non-nuclear weapon states with important nuclear programs have not yet signed.

A decision to extend the treaty will be taken in 1995. Canada advocates an indefinite extension and is pursuing measures to make the treaty more effective. These include strengthening multilateral controls on the export of dual-use nuclear goods, encouraging the superpowers to negotiate further drastic cuts in their nuclear arsenals, and promoting acceptance of the treaty by the handful of states that have not signed.

Canada attaches high priority to achieving a global, comprehensive and verifiable agreement banning the production, acquisition, stockpiling and use of all chemical weapons. There is widespread optimism that the Geneva Conference on Disarmament will conclude a chemical weapons convention before the end of 1992. As a participant at the conference, Canada will work to resolve outstanding issues.

Since 1985, a number of Western countries, working as the "Australia Group," have exchanged information on how they might curtail the spread of chemical weapons. Canada, for example, recently increased the number of chemicals subject to an export licensing requirement from 12 to 50.

The 1975 Biological and Toxin Weapons Convention bans the acquisition, possession and use of such weapons and now has over 110 signatories. However, a number of states with the technological capability to develop these weapons are not parties. Furthermore, the convention lacks meaningful provisions to ensure compliance.

At a third review conference to be held in Geneva in the fall of 1991, Canada will seek to strengthen the Biological and Toxin Weapons Convention by proposing ways to develop its confidence-building and conflict-resolution provisions. Specifically, Canada wants more exchanges of data on research facilities and agreement to hold a special conference to negotiate verification provisions.

The proliferation of missile technology is addressed by the Missile Technology Control Regime. The regime's 15 partners have agreed to control the export of specific

items needed for missile production. To strengthen the regime's effectiveness, Canada favours expanding its membership to other exporters of missile technology, and advocates broadening the regime to include missiles with smaller payloads and longer ranges.

All countries exercise some control over their exports of conventional weapons. However, there are no global, comprehensive or legally binding international mechanisms, even though United Nations resolutions aimed at promoting "transparency," or the regulation of arms transfers, have been passed since 1985. A group of experts is studying the question and will report its findings to the UN General Assembly in the fall of 1991.

Canada views the following principles as an effective basis for addressing the excessive buildup of conventional arms:

- transparency in arms transfers;
- consultation among states about excessive accumulation of arms; and
- exporter restraint with states that appear to be acquiring more arms than required for a legitimate defence.

For the first principle, Canada supports establishing a United Nations arms transfer registry. In addition, in March 1991, Canada issued the "First Annual Report on the Export of Military Goods from Canada." The report contains statistics on the value and composition of Canadian military exports in 1990 to all countries except the U.S. (It has been long-standing policy that no export permits are required for munitions products going to the U.S. Statistics on shipments were therefore not available.)

While pursuing restraint in arms transfers to states accumulating excessive quantities of conventional weapons, Canada recognizes the right of all states to ensure their legitimate defence needs are met. The recently proposed amendments to the Export and Import Permits Act will give Canadian firms the opportunity to help NATO allies and close defence partners.

SOVIET UNION

The reforms of Soviet President Mikhail Gorbachev have made the world more secure. He has helped bring an end to the Cold War, to superpower confrontation and to division in Europe. He has also managed to keep the U.S.S.R.'s foreign policy on track and maintained its significant political and diplomatic influence in global affairs.

The Soviet Union played a key role throughout the Gulf crisis, particularly in the United Nations. Meanwhile, in Ethiopia, Angola, and Central America co-operative efforts are making it possible to resolve regional conflicts that once seemed intractable. Prospects have also improved for resolving the Afghanistan and Cambodia conflicts.

Domestically, the U.S.S.R. is in turmoil. Perestroika has unleashed political opposition, economic dissatisfaction and ethnic violence. A co-operation agreement, still fragile, was recently signed between the central authority and nine republics. The Baltic States and three other republics want independence.

For Canada, the Baltic States are a special case. We have never accepted their forcible annexation by the U.S.S.R. and recognize their lawful independence. We are encouraging a negotiated settlement consistent with the right of the Baltic peoples to freely determine their own future.

Despite recent setbacks, there are signs that President Gorbachev intends to press ahead with reform. He has apparently made peace with his main rival, Boris Yelstin, newly elected president of the Russian Soviet Federative Socialist Republic.

Canada is concerned about the Soviet Union's ongoing problems. A stable U.S.S.R. is clearly in everyone's interest. Canada wants to see President Gorbachev succeed in moving his nation toward democracy and a market economy.

Although the economic transition will be difficult, the study of the Soviet economy by international financial institutions, as authorized by the Houston Economic Summit, offers a workable blueprint. Canada hopes the Soviet government will commit itself to such a program, and is ready to help.

As the U.S.S.R. becomes more market-oriented, it must integrate into the international trade and payments system. Canada and others are exploring possibilities.

Prime Minister Brian Mulroney's November 1989 visit to the U.S.S.R. put bilateral relations on a new basis. Fourteen documents were signed covering everything from nuclear co-operation to military contacts and the Arctic. The prime minister also announced that Canada plans to open a consulate general in Kiev (in the summer of 1991).

Canada and the U.S.S.R. have much in common, not the least being their federal makeup. The mutual interests of Canada's provinces and the Soviet republics have resulted in closer relations between the two countries at the sub-national level. During the prime minister's 1989 visit to the Soviet Union, an agreement was signed on co-operation between the provinces and republics. Several provinces have cultural, social or economic agreements or memorandums of understanding with their Soviet counterparts.

High-level contacts are increasing. In May 1990, President Gorbachev visited Canada, accompanied by then foreign minister Edward Shevardnadze. Canada's ministers for external Affairs and international trade visited the U.S.S.R. last fall. The chief of the Soviet defence staff just completed a visit here.

Trade with the U.S.S.R. is up dramatically, with Canadian exports in 1990 of \$1.12 billion against imports of \$185 million. More than 50 joint ventures are now in place. McDonalds Restaurants of Canada opened the first fast-food hamburger restaurant in Moscow. Canadian Fracmaster, Lavalin and Gulf Resources are all active in the U.S.S.R.'s oil and gas sector.

Canada, with its world-class technology in telecommunications and resource development, is a natural business partner for the changing Soviet Union. The Canada-U.S.S.R. Business Council is co-ordinating new ventures with the Soviet Chamber of Commerce and Industry.

RELATIONS WITH CENTRAL AND EASTERN EUROPE

Canada welcomed the democratic revolutions in late 1989 and 1990 that dramatically transformed the political landscape of Central and Eastern Europe.

However, attempts by the new democracies to speed up economic reforms without unacceptable hardships have been complicated by economic shocks due to new trading patterns, disruptions in Soviet energy supplies, the Gulf crisis and, in the past year, the worst drought in decades.

Despite these difficulties, progress has been made, particularly in Poland, Hungary, and the Czech and Slovak Federal Republic. Bulgaria and Romania have been the hardest hit by the economic shocks, and their democratically elected governments remain fragile.

Yugoslavia, once the most advanced country in Eastern Europe and not part of the Warsaw Pact, has been struggling with acute constitutional and interethnic problems. Its future remains uncertain.

The new democracies will continue to need Western backing if they are to survive and move definitively to market economies. So they are seeking closer links to Western countries and institutions — the European Community, NATO, the Organization for Economic Co-operation and Development, and the Council of Europe.

The Central and Eastern European countries also want to integrate their economies into the international system, and it is in the West's interest to support them. The economic and political ties Canada develops now will be valuable as Europe moves to economic and political unity.

The new governments are looking to Canada and other Western governments in the "Group of 24" for both economic and political support. Since the Paris Economic Summit in 1989, this group of 24 members of the OECD has committed some US\$13.2 billion in grants, loans, balance of payments support and technical assistance directly to Central and East European countries. It has also committed funds through the International Monetary Fund, the World Bank and

the new European Bank for Reconstruction and Development.

Despite its difficult fiscal situation, Canada has contributed its share to major G-24 financial support packages for the Czech and Slovak Federal Republic, Hungary and Poland. These packages complement monetary fund and reconstruction bank economic reform programs in these countries.

Canada's contribution to Polish debt relief was substantial in absolute terms, and largest overall among G-7 countries in per capita terms. Canada strongly supported creating the reconstruction bank, and owns 3.4 per cent of its capital. This makes Canada the eighth largest contributor to the bank.

The centrepiece of Canadian efforts is the Task Force on Central and Eastern Europe, which manages a \$40 million program of bilateral co-operation and technical assistance for democratic development and economic restructuring. Focussing initially on Poland and Hungary, the program has now been extended to the Czech and Slovak Federal Republic. Projects are being initiated with Romania.

The task force helps countries make structural changes in their economy and create and strengthen democratic institutions. Projects include technical assistance, exchanges, and management training in areas such as agriculture, law, taxation, privatization, environment, finance and telecommunications — areas in which Canada has special expertise.

The task force program supports projects that are practical, clearly defined and, where possible, that involve support from the Canadian private sector, investors, ethnic organizations and other interested groups.

Prospects for expanding Canadian commercial and investment ties with the countries of Central and Eastern Europe are good despite economic difficulties. Canada's \$8 million Renaissance Eastern Europe Program promotes trade and investment. EDC credits to Poland and Romania have encouraged much-needed exchanges.

Canada has granted general preferential tariff status to Poland and Hungary. Foreign investment protection agreements have been signed with the Czech and Slovak republic and with Poland. Canada has double taxation agreements with the Czech and Slovak republic, and with Poland, Romania, and Bulgaria.

Canada intends to become increasingly involved in energy development in Central and Eastern Europe. We already have joint commitments with European firms, notably in Romania (nuclear) and the U.S.S.R. (oil and gas). Canada supports the concept of a European energy charter — a European Community scheme for closer co-operation in Europe. Canada believes that participation by non-European OECD countries will

strengthen the charter, just as it has strengthened the European Bank for Reconstruction and Development.

Canada's bilateral relations with the countries of Central and Eastern Europe, relatively static and formal during the Cold War, are now cordial and active. We have been co-operating with them on such international issues as the Open Skies negotiations, which Canada co-hosts with Hungary; and we have encouraged their seeking closer links with major Western international organizations.

Prospects for a long-term partnership between Canada and the countries of Central and Eastern Europe, already strengthened by historic and family ties, are promising.

ENERGY

Since 1984, Canada has developed and implemented an energy policy founded on market principles. The fundamental concept is that competitive markets should determine private decisions about energy, supply demand, price and trade. That way, Canada can ensure its energy security and remain responsive to change and challenges.

In this context, the government's goals for energy policy can be summarized as economic growth, flexibility and diversity within the energy economy, environmental responsibility, and security of supply.

Energy issues are vital to Canada because of the value of our energy trade and the contribution of the energy sector to our overall economic performance. Canada is an important producer and net exporter of nearly all forms of energy. The total value of Canadian energy exports increased by 20.2 per cent in 1990, from \$13.1 to \$15.7 billion.

Energy exports in 1990 accounted for almost 11 per cent of Canada's total merchandise exports. In comparison, transportation equipment industries accounted for approximately 28 per cent and wood and paper industries for 15 per cent of total merchandise exports.

Several major trade and issues influence energy policy. These include

- stronger competition due to progressive reduction in trade barriers;
- the re-emergence of energy security concerns in light of the Persian Gulf crisis and increased global energy demands; and
- continued concern about the impact of energy production and consumption on the environment, and the development of abatement strategies and international agreements to mitigate these effects.

In June 1991, energy ministers from each of the member states of the International Energy Agency discussed issues expected to influence the energy sector in the 1990s.

These included

- energy security, in response to potential supply disruptions and increased global demands;
- energy and the environment;
- the role of nuclear power in relation to security and environmental concerns; and
- increasing globalization of energy markets and relations with countries that are not members of the agency.

Recent events in the Persian Gulf focussed concern on energy security and demonstrated how all countries can be affected by international events as a result of the integration of global energy markets. When the Gulf War broke out in January 1991, the International Energy Agency set in motion a plan allowing each member to implement voluntarily a variety of responses to supply disruptions.

The plan's flexibility permitted governments to respond quickly and effectively. A willingness to act together helped calm markets and prevented more serious economic consequences.

At their June meeting, energy ministers also discussed the increasing influence of countries that are not members of the Organization for Economic Co-operation and Development. Non-OECD countries now account for roughly 50 per cent of world energy demand, and this is expected to increase through the next decade.

Since Canada's interests in both energy security and the environment will be fundamentally affected by these developments outside the OECD, we and our OECD partners will have to learn more about energy trends in other parts of the world, and forge links in other regions. Fortunately, the changing political landscape is providing opportunities for more contact with non-OECD countries in Eastern and Central Europe, the Middle East, and Asia and the Pacific.

Integrating of environmental considerations into energy policy and assessing the implications are issues that Canada is pursuing both domestically and in collaboration with international partners. Policies that diminish the harmful consequences of energy production and use are essential. The challenge will be to do this without compromising the primary objective of the energy sector: secure and economic supply.

The government is also preparing a program on energy efficiency and alternative energy. Options for severely limiting greenhouse gas emissions include increasing energy efficiency, encouraging conservation, and using energy wisely.

Apart from short-term improvements in energy efficiency, Canada's promotion of alternative energy sources, including nuclear power, will help reduce greenhouse gas emissions and will diversify energy supply.

NARCOTICS

The serious problems associated with drug abuse and the international traffic in illicit drugs, both in terms of supply and demand, continue to be the subject of international attention. Unfortunately, Canada is both a consuming country and a transit point for drugs heading for other countries.

Since 1987, much of Canada's effort to fight drugs has been coordinated under the National Drug Strategy — a comprehensive operation encompassing treatment and rehabilitation, education and prevention, enforcement and control, international co-operation, information and research.

Designed to meet uniquely Canadian needs, the National Drug Strategy brings together resources at all levels of government and the private sector to tackle a host of interrelated problems. In particular, it identifies reduction of domestic demand as the single most important way to eliminate the drug trade.

As part of the overall strategy, in 1988 Canada adopted legislation designed to seize the proceeds of crime and to attack the problem of money laundering (the legitimization of the proceeds of crime). New legislation, enhancing record keeping by financial institutions, will be introduced at this session of Parliament.

But it is clear that Canada cannot solve its drug problem in isolation. Federal departments and agencies have been active in international efforts ranging from training and co-operative arrangements with other law enforcement agencies to providing equipment to countries with special requirements.

Canada is also extending its legal co-operation with other countries. Along with many of the summit participants, Canada is part of a growing network of mutual legal assistance treaties. As well, Canada has strengthened the international legal framework with several encompassing bilateral extradition treaties.

The narcotics issue has been raised at successive summits since the 1988 Toronto Economic Summit acknowledged the need to

counter the illicit drug problem, including the financing of the drug trade and money laundering. Further encouragement was given to the international co-operative drug effort at both the 1989 Paris Economic Summit and the 1990 Houston Economic Summit. The annual economic summits have, in fact, become catalysts in promoting action on urgent issues.

The 1989 Paris Summit authorized a financial action task force to assess the results of co-operative measures on the problem of money laundering, and to consider additional measures. The task force tabled its report at the 1990 Houston Summit with guidelines showing how individual states can assist. Record keeping was one such guideline.

Leaders at the Houston Summit accepted the report and since then countries have focussed attention on implementing the guidelines. At London, leaders are expected to note the progress and endorse the idea of placing future work within an existing multilateral institution.

The 1990 Houston Summit established a chemical action task force to study proposed procedures to ensure that precursor and essential chemicals are not diverted to the manufacture of illicit drugs. Synthetic drug production relies on precursor chemicals that become part of the resulting product. On the other hand, the production of heroine and cocaine relies, for processing and refining, on essential chemicals that do not become an integral part of the end product.

The chemical action task force was to address the problems as they concerned the production of cocaine, heroine and synthetic drugs. It will table a report with recommendations to improve national and international chemical control regimes, particularly the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

All summit countries have now ratified the convention, along with 30 other countries

Canada strongly recommends that all countries ratify this convention, which could become a major weapon in the international fight against drugs.

The Houston Summit called for an informal narcotics consultative arrangement among major donor countries. This new mechanism, called the Dublin Group, has met twice in Brussels, with the European Community providing a secretariat.

Since the Houston Summit, Canada has supported and participated in restructuring United Nations drug units to create an International Drug Control Program situated in

Vienna. The spring 1991 session of the United Nations Commission on Narcotic Drugs launched the program.

The first Pan-European Ministerial Conference on Co-operation on Illicit Drug Abuse Problems was held in Oslo in May 1991. Canada welcomed the outcome as a concrete move to help the newly emerging democracies of Central and Eastern Europe to stop their countries being used as an easy route for drug flows to the West, and to take action before their drug problem becomes more serious.

CANADA'S ECONOMIC PERFORMANCE

From 1984 to 1989, Canada's economy, led by vigorous growth in domestic demand, expanded faster than any other economy among the group of seven major industrial democracies (G-7 countries) — with the exception of Japan. Employment growth in Canada, over this period, was the fastest in the G-7.

By 1989, however, imbalances in the expansion had become evident. The rapid growth in consumer spending had driven household debt levels and debt-servicing costs to near record levels. The deterioration in household balance sheets contributed to a weakening in confidence.

The growth of demand had also pushed the economy above its long-run capacity to produce goods and services. Inflationary pressures emerged. The rate of inflation in 1989 rose to 5 per cent from 4 per cent the year before and would have been even more had not the Canadian dollar appreciated at the same time. The 12-month inflation rate peaked at 5.5 per cent in early 1990.

Labour markets also reflected increased inflationary pressures. Wage increases in major contract settlements increased from 4.4 per cent in 1988 to 5.3 per cent in 1989 and to 5.8 per cent in 1990.

Intensifying inflationary pressures threatened Canada's international competitive position. Canada's inflation rate in prices and unit labour costs in 1989 was third worst in the G-7, and was significantly worse than the United States, our principal trading partner.

Demand pressures and worsening relative-cost performance in Canada contributed to a deterioration in the current account to a record \$16.7 billion deficit in 1989.

As a result of the inflationary pressures, monetary conditions progressively tightened from early 1988 until the spring of 1990. From February 1988, the 90-day commercial paper rate rose 548 basis points to peak at 14.03 per cent in May 1990. The differential with the corresponding rate in the United States widened to as much as 565 basis points in May 1990.

The large interest-rate differentials contributed to the strength of the Canadian dollar. From early 1988 to May 1990, the Canadian dollar increased in value from approximately US\$0.78 to just under US\$0.86. The strong Canadian dollar, combined with rising internal costs, led to a deterioration in corporate profits and a weakening of corporate balance sheets.

By the second quarter of 1990, tight monetary conditions and imbalances in the expansion led to a recession that lasted through the rest of the year and into 1991. One year into the recession, real gross domestic product (at factor cost) has fallen 3.1 per cent, compared with 4.7 per cent at the same point in the 1981-82 recession.

The interest-sensitive components of domestic demand have been most seriously affected. Residential investment has fallen 15.6 per cent in real terms since the start of the recession. Spending on consumer durables has fallen 4.5 per cent, while business non-residential investment has declined 5.2 per cent. At the same time, a recession in the U.S. economy has reduced the demand for Canadian exports. The unemployment rate rose from a low of 7.2 per cent to 10.3 per cent in May 1991.

The easing in demand pressures caused by the recession has led to a reduction in inflationary pressures, although this reduction has been masked by the introduction of the Goods and Services Tax in January and other indirect tax increases.

The year-over-year increase in the consumer price index declined slightly to 6.2 per cent in May from 6.3 per cent in March and April. However, the year-over-year rate does not capture the substantial slowdown in inflation in recent months. Over the past three months, the annual rate of inflation has been just over 3 per cent.

Wage pressures have also begun to diminish. Private sector wage settlements have fallen to the 5 per cent range in the first four months of the year, from 6.5 per cent in the third quarter of 1990. Public sector

settlements fell to 3.1 per cent in April, reflecting wage guidelines adopted by the federal and seven provincial governments.

In turn, monetary conditions have eased. Since their May 1990 peak, short-term interest rates have fallen over 500 basis points to their lowest level since April 1988. The differential with U.S. short-term interest rates has narrowed to just under 250 basis points. Despite the narrowing of this differential, however, the Canadian dollar has remained strong against its U.S. counterpart, trading around US\$0.87.

The February 1991 budget called for a recovery to begin in the second half of 1991 in response to lower interest rates and a recovery in the U.S. economy. The early signs of the expected recovery have appeared.

Employment, which provides a comprehensive indication of the state of the economy,

stabilized in March and increased strongly in April and May. Gains in employment of this strength and duration have typically been associated with gains in output. Indeed, manufacturing shipments rose for the second consecutive month in April.

The gains in employment confirm indications of the strengthening in demand caused by lower interest rates. Housing sales, which began increasing in February, increased 65 per cent in May and were higher than at any time in the 1980s. Housing construction responded to this increased demand, increasing 31 per cent in April and a further 16 per cent in May.

The rebound in housing has prompted a recovery in sales of related goods — furniture and appliances. In addition, automobile sales increased sharply in April and continued to increase in May.

STATISTICAL SUMMARY

by Country

		Canada	U.S.	Japan	F.R.G. ¹	U.K.	France	Italy
GNP/GDP (percentage change)	1989	3.0	2.5	4.7	3.8	1.8	3.7	3.2
	1990	0.9	1.0	5.6	4.5	0.6	2.8	1.9
	1991 ²	-1.1	0.2	3.6	2.8	-2.1	2.1	1.7
Employment (percentage change)	1989	2.0	2.0	1.9	1.4	3.1	1.2	-0.5
	1990	0.7	0.6	2.0	2.5	1.3	1.1	1.4
CPI inflation (per cent)	1989	5.0	4.8	2.3	2.8	7.8	3.5	6.3
	1990	4.8	5.3	3.1	2.7	9.5	3.4	6.5
	1991	5.6	4.9	4.0	3.5	6.0	3.2	6.2
Change: 1989 to 1990 (per cent)		-0.2	+0.5	+0.8	-0.1	+1.7	-0.1	+0.2
Unemployment rate (per cent)	1989	7.5	5.3	2.3	7.1	6.2	9.5	12.0
	1990	8.1	5.5	2.1	6.4	6.0	9.0	11.0
Current account balance (billions of U.S. dollars)	1989	-14.1	-110.0	57.2	55.3	-32.6	-4.3	-10.5
	1990	-13.7	-99.3	35.7	44.5	-22.8	-7.5	-15.7
	1991	-10.2	-37.8	42.0	9.8	-15.6	-6.8	-17.5
Change: 1989 to 1990 (billions of U.S. dollars)		+0.4	+10.7	-21.5	-10.8	+9.8	-3.2	-5.2
ODA (per cent of GNP/GDP) ³	1987	0.47	0.20	0.31	0.39	0.28	0.51	0.35
	1988	0.50	0.21	0.32	0.39	0.32	0.50	0.39
	1989	0.44	0.15	0.32	0.41	0.31	0.54	0.42
Change: 1988 to 1989		-	-	none	+	-	+	+
Central government fiscal balance (percentage of GNP/GDP)	1985	-6.6	-4.9	-3.7	-1.2	-2.3	-3.3	-13.8
	1986	-4.7	-4.9	-3.2	-1.2	-2.1	-2.8	-12.3
	1987	-3.9	-3.5	-2.2	-1.4	-1.1	-2.3	-11.6
	1988	-3.5	-2.9	-1.3	-1.7	1.1	-2.0	-11.5
	1989	-3.5	-2.6	-1.1	-0.9	1.2	-1.6	-11.2
	1990	-3.5	-3.0	-1.0	-1.8	-0.4	-1.4	-10.8
1991	-3.5	-3.5	-1.0	-2.5	-1.3	-1.3	-10.3	
Change in fiscal balance 1985 to 1990 (per cent of GNP/GDP)		+3.1	+1.9	+2.7	-0.6	+1.9	+1.9	+3.0
Savings ratio	1989	11.0	4.7	15.0	12.5	6.7	12.3	13.9
	1990	10.8	4.6	15.0	13.0	7.6	12.4	14.2
	1991	10.4	4.6	14.9	12.4	7.8	12.2	13.7
Central government net debt interest payments (as a percentage of total expenditure)	1988	20.8	13.6	15.9	7.6	5.2	7.1	18.9
	1989	23.1	14.5	na	4.2	na	na	20.8
	1990	23.9	14.7	na	na	na	na	na
	1991	23.4	15.7	na	na	na	na	na

Sources: Department of Finance Canada; IMF World Economic Outlook, April 1991; OECD Economic Outlook 48, December 1990.

Note: na means "not available."

¹Current account data exclude the German Democratic Republic for the first half of 1990, and include the united Germany for the second half of 1990. Central government fiscal balance and central government net debt interest payments data refer to all of Germany (national accounts basis) for 1990 and 1991. All other data exclude the German Democratic Republic.

²Projections for 1991 are from the OECD and IMF documents cited.

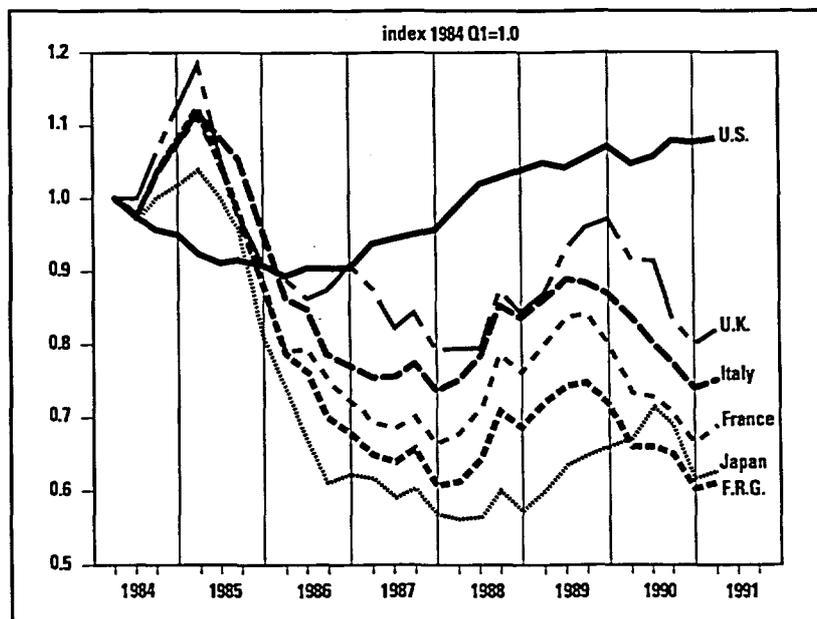
³Official development aid data for France exclude Departement d'Outre-Mer—Territoires d'Outre-Mer expenditures.

COMPARATIVE ECONOMIC CHARTS

**CHART 1
CANADIAN DOLLAR MOVEMENTS
AGAINST G-7 CURRENCIES**

After appreciating steadily since early 1986, the Canadian dollar remained relatively constant against the U.S. dollar through most of 1990. The Canadian dollar began the year at US\$0.8647 and ended at US\$0.8621. In 1991, it strengthened further, trading near US\$0.87.

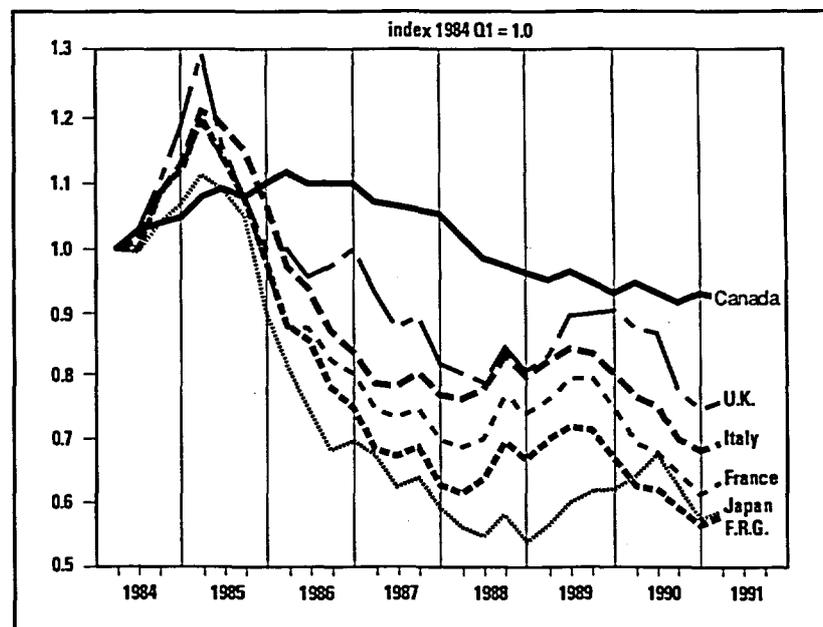
In 1990, the Canadian dollar declined against the currencies of the overseas members of the group of seven (G-7) major industrial democracies (the summit countries). It ended the year down 7 per cent against the Japanese yen, 14 per cent against the F.R.G. deutsche mark and 17 per cent against the U.K. pound. Since the fourth quarter of 1990, however, the Canadian dollar has rebounded sharply against the European G-7 currencies and has risen moderately against the yen.

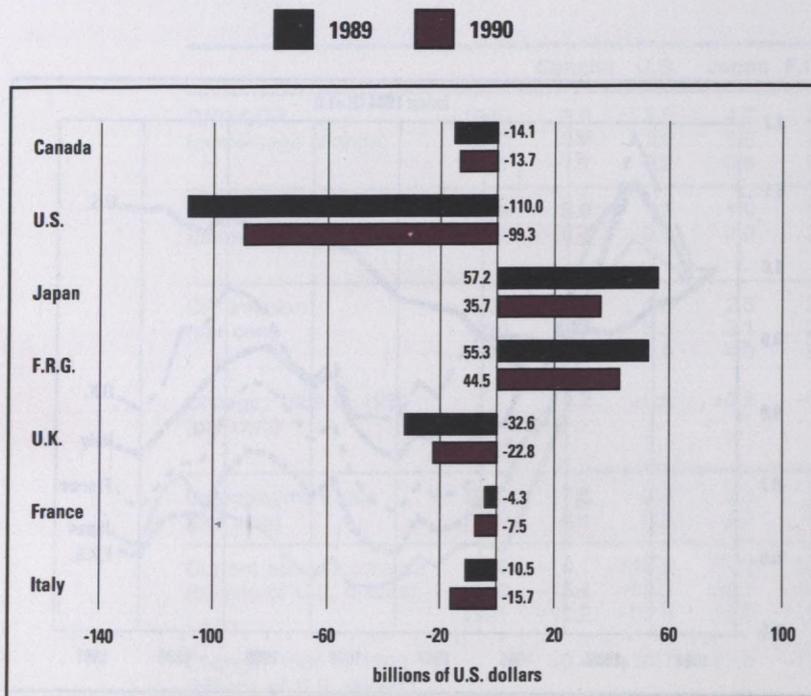


**CHART 2
U.S. DOLLAR MOVEMENTS
AGAINST G-7 CURRENCIES**

In the second half of 1990, the U.S. dollar weakened against the currencies of the group of seven (G-7) major industrial democracies (the summit countries). The dollar was particularly weak vis-à-vis the F.R.G. deutsche mark and to a lesser extent against the Japanese yen, reflecting a widening of interest rate differentials in favour of foreign financial assets. In early February 1991, the dollar hit a record post-World War II low of 1.4425 deutsche marks.

Since then the dollar has staged a sharp rebound against most G-7 currencies. Its renewed strength reflects a number of factors. The U.S. economy is perceived to be on the verge of recovery, while the major European economies and Japan are experiencing more sluggish growth. Expectations of renewed U.S. growth have led to a greater demand for U.S. dollars. In addition, lower trade and current account deficits in the U.S. have also helped bolster the dollar.



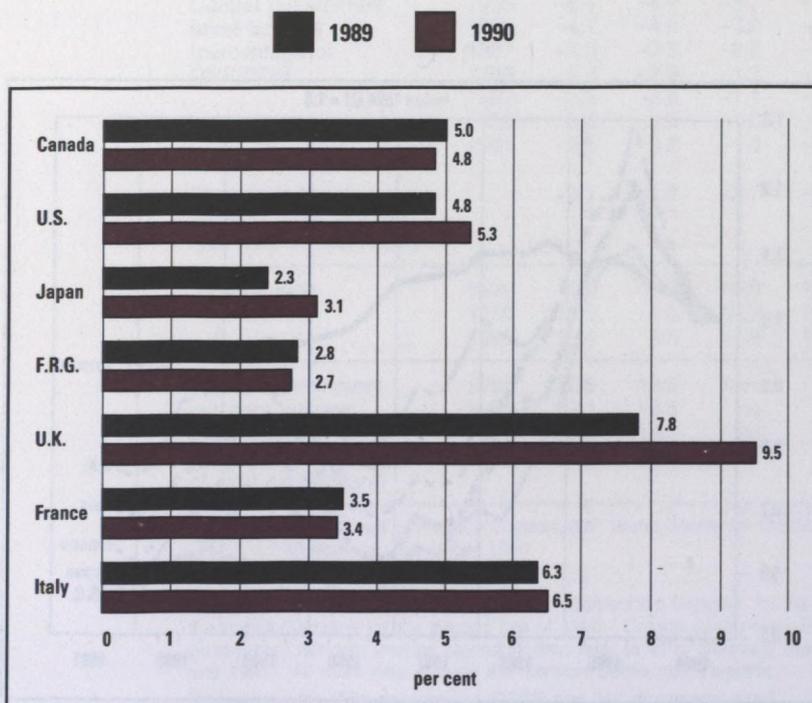


**CHART 3
CURRENT ACCOUNT BALANCE**

Current account imbalances among the three leading summit countries (the U.S., Japan, and the F.R.G.) continued to lessen in 1990. The sustained real depreciation of the U.S. dollar since the end of 1989 contributed to a further narrowing of the U.S. merchandise trade deficit in 1990, helping to lower the U.S. current account deficit.

Strong domestic demand growth in both Japan and the F.R.G. contributed to lowering each country's current account surpluses. German monetary and economic union was another major factor in lowering the F.R.G.'s current account surplus in the second half of 1990.

Canada's current account deficit narrowed slightly to US\$13.7 billion in 1990 from US\$14.1 billion in 1989.

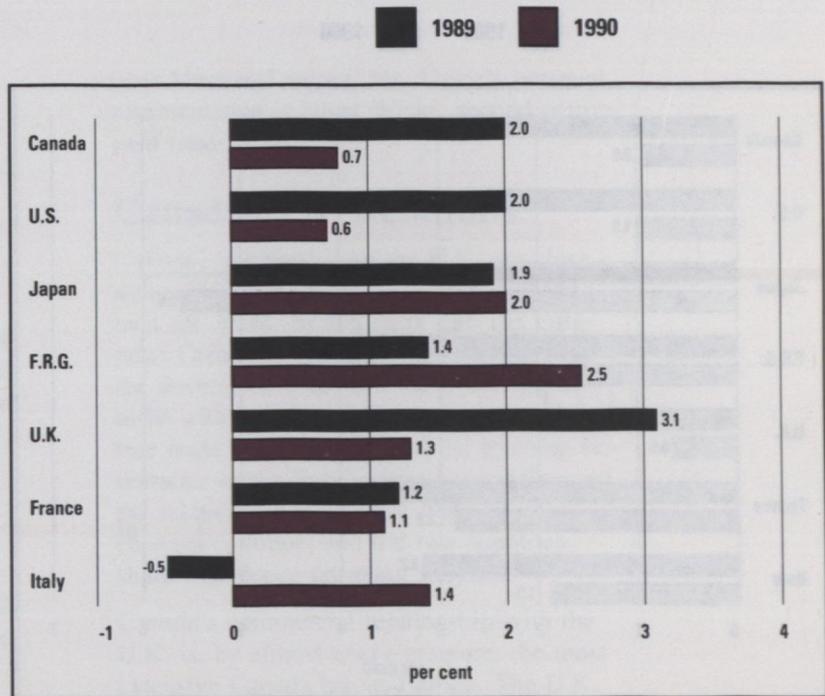


**CHART 4
GROWTH OF CONSUMER
PRICE INDEX IN 1989 AND 1990**

In 1990, consumer price inflation increased in four summit countries, but eased slightly in the three others: Canada, the F.R.G. and France. The U.K., which had the highest inflation rate of the seven in 1990, also had the largest increase; however, some of this increase can be attributed to the introduction of the poll tax in 1989. In Canada, the inflation rate is expected to rise 0.8 per cent to 5.6 per cent in 1991; the goods and services tax, introduced in January, is expected to increase measured inflation in 1991 by 1.25 per cent.

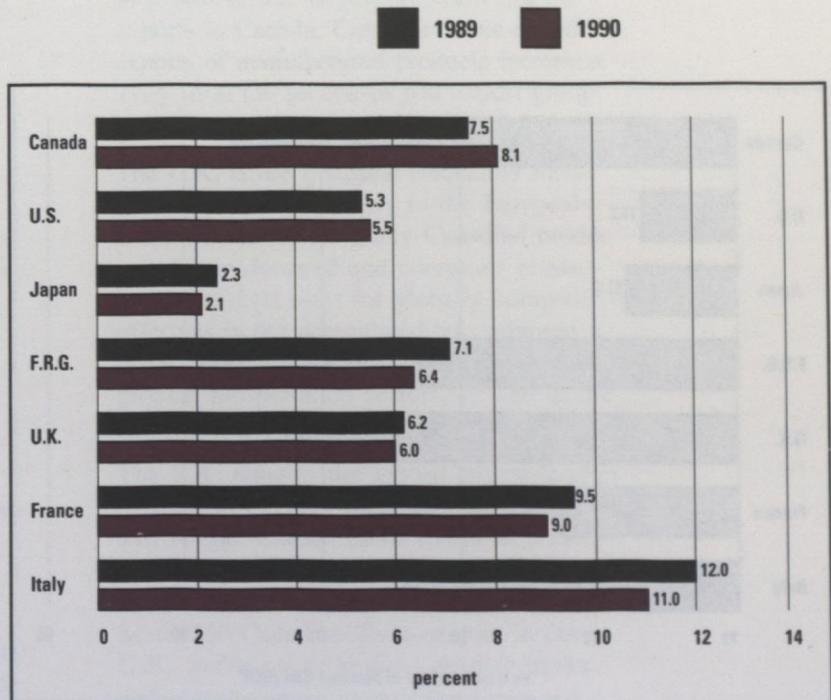
**CHART 5
GROWTH OF EMPLOYMENT
IN 1989 AND 1990**

The F.R.G. posted the strongest employment growth rate of the summit countries in 1990, with a 2.5 per cent increase. Japan was second with 2 per cent. Employment growth was weak in North America in 1990, as Canada and the U.S. entered recessions.



**CHART 6
UNEMPLOYMENT RATES**

The unemployment rate fell in all summit countries except Canada and the U.S. The unemployment rate fell one percentage point in Italy, but, at 11 per cent, Italy still has the highest rate. Canada's unemployment rate rose 0.6 percentage point to 8.2 per cent, the first rise since 1983.



■ 1989 ■ 1990

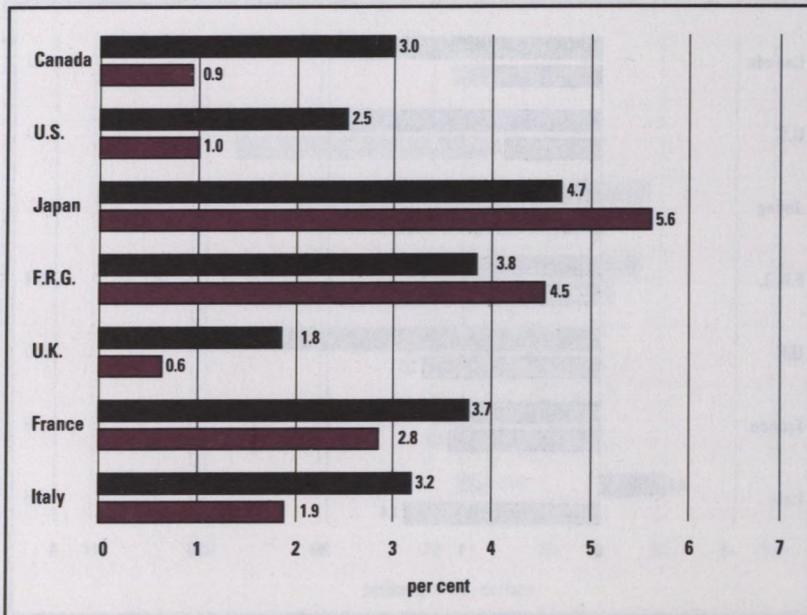


CHART 7
GROWTH OF REAL GNP/GDP
IN 1989 AND 1990

In 1990, growth in the summit countries slowed to 2.6 per cent, its slowest pace since 1986. The general weakening of growth, however, masked a marked divergence in economic performance among the major seven industrialized countries. Growth in Japan and the F.R.G. in 1990 exceeded growth in 1989, boosted by strong business investment and consumer spending.

The economies of the U.S., the U.K., and Canada fared less well in 1990, with Canada slipping into recession in the second quarter of 1990. The U.S. and the U.K. fell into recession in the second half of 1990, in part due to weak consumer and corporate balance sheets.

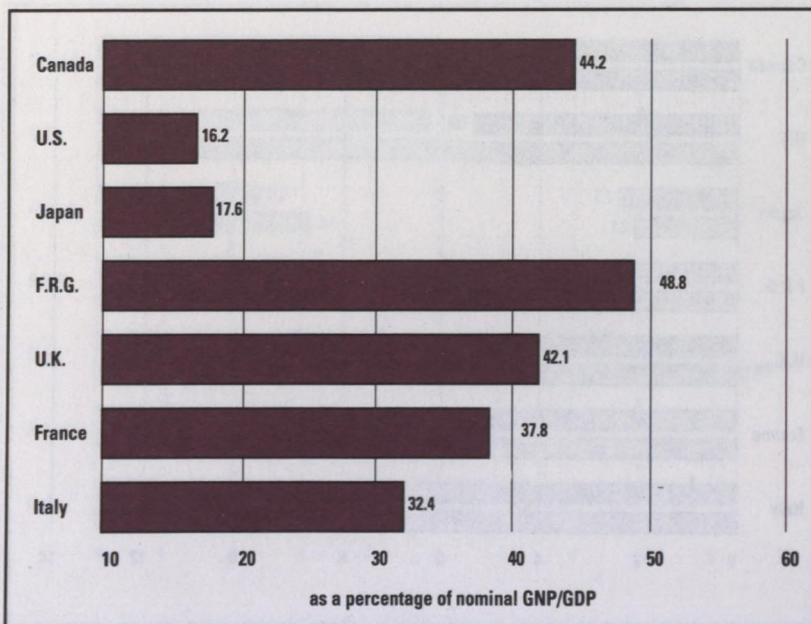


CHART 8
INTERNATIONAL TRADE IN 1990

International trade is important to all summit countries, but particularly so for Canada and the major European countries. The external sector of the F.R.G. economy remains the largest of the seven major industrialized countries. By contrast, the U.S. and Japan are much less dependent on foreign trade.

Slowing world growth in 1990 contributed to a slowing in export and import volume growth in the summit countries. Foreign trade, however, still contributed to overall growth in these countries last year.

UNITED KINGDOM

Prime Minister John Major

John Major was born in 1943 and educated at Rutlish Grammar School. He was an executive with Standard Chartered Bank from 1965 to 1979 and is an associate of the Institute of Bankers. From 1968 to 1971 he served on Lambeth Borough Council.

Before his election to Parliament as member for Huntingdonshire in 1979, Mr. Major contested Camden (St. Pancras) in February and October 1974. Since the general election of 1983 and following constituency boundary changes, he has sat for Huntingdon.

From 1981 to 1983, Mr. Major was parliamentary private secretary to the minister of state at the home office. He became an assistant government whip in 1983, and was next appointed a lord commissioner of the treasury (a senior government whip) in 1984.

In 1985 he was made parliamentary under-secretary of state for social security at the Department of Health and Social Security and was promoted to minister of state for social security and the disabled in 1986. He remained in this post until his appointment as chief secretary to the treasury following the general election of June 1987.

Mr. Major was a member of the board of Warden Housing Association from 1975 to 1983. He was a joint secretary of the Conservative back-bench environment committee from 1979 to 1981; parliamentary consultant to the Guild of Glass Engravers from 1979 to 1983; and president of the Eastern Area Young Conservatives from 1983 to 1985.

John Major was secretary of state for foreign and commonwealth affairs from July until October 1989, when he became chancellor of the exchequer. He was elected Conservative leader on Nov. 27, 1990 and became prime minister on Nov. 28.

As host in London, Mr. Major will attend his first economic summit as prime minister. He attended last year's summit as chancellor of the exchequer. He will be accompanied by Foreign and Commonwealth Secretary Douglas Hurd, and Chancellor of the Exche-

quer Norman Lamont. Mr. Major's personal representative is Nigel Wicks, second permanent treasury secretary.

Canada-U.K. Relations

Canada's relations with the U.K. are close, although they have changed considerably over the years. British entry into the European Community and, on the Canadian side, the development of the Free Trade Agreement with the United States, the prospect of free trade with Mexico, and the growing importance of the Pacific Rim have influenced the relationship. Extensive bilateral exchanges continue, and the two countries share experience on many subjects.

Canada's commercial relationship with the U.K. is, by almost every measure, the most extensive Canada has in Europe. The U.K. is Canada's third-largest trading partner, after the U.S. and Japan. Two-way merchandise trade with the U.K. increased from \$8 billion in 1989 to \$8.2 billion in 1990. Although the U.K. enjoyed a trade surplus of \$1.5 billion, due largely to North Sea oil exports to Canada, Canadian value-added exports of manufactured products increased. They form the second-largest export grouping, after wood and wood articles.

The U.K. is the first, and frequently most successful, point of entry to the European Common market for many Canadian producers of manufactured and consumer goods. Ready markets exist for globally competitive offerings in the deregulated telecommunications market, informatics, aerospace and ground transportation sectors, as well as the recently privatized energy sector.

The U.K. remains the second-largest foreign investor in Canada, with holdings exceeding \$16 billion. Canada ranks fourth as a destination for U.K. investment and over 650 British firms have subsidiaries in Canada. Some 250 Canadian firms operate in the U.K., including all major Canadian banks and security firms, several insurance and trust companies, and dozens of legal, accounting, consulting and service firms.

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Canada's relations with the U.K. are close, although they have changed considerably over the years. British entry into the European Community and, on the Canadian side, the development of the Free Trade Agreement with the United States, the prospect of free trade with Mexico, and the growing importance of the Pacific Rim have influenced the relationship. Extensive bilateral exchanges continue, and the two countries share experience on many subjects.

Canada's commercial relationship with the U.K. is, by almost every measure, the most extensive Canada has in Europe. The U.K. is Canada's third-largest trading partner, after the U.S. and Japan. Two-way merchandise trade with the U.K. increased from \$8 billion in 1989 to \$8.2 billion in 1990. Although the U.K. enjoyed a trade surplus of \$1.5 billion, due largely to North Sea oil exports to Canada, Canadian value-added exports of manufactured products increased. They form the second-largest export grouping, after wood and wood articles.

The U.K. is the first, and frequently most successful, point of entry to the European Common market for many Canadian producers of manufactured and consumer goods. Ready markets exist for globally competitive offerings in the deregulated telecommunications market, informatics, aerospace and ground transportation sectors, as well as the recently privatized energy sector.

The U.K. remains the second-largest foreign investor in Canada, with holdings exceeding \$16 billion. Canada ranks fourth as a destination for U.K. investment and over 650 British firms have subsidiaries in Canada. Some 250 Canadian firms operate in the U.K., including all major Canadian banks and security firms, several insurance and trust companies, and dozens of legal, accounting, consulting and service firms.

FRANCE

President François Mitterrand

President François Mitterrand was born in Jarnac on Oct. 26, 1916. At the time of the liberation, Mr. Mitterrand founded the Union démocratique et socialiste de la Résistance, a small centrist party. He went on to play an active part in the political life of the fourth republic (1946-1958), in which he was a member of 11 successive governments.

During the de Gaulle presidency (1958-1969), when the opposition was divided, Mr. Mitterrand strove to rally the non-communist left. He ran against de Gaulle in the 1965 presidential election and obtained 45 per cent of the vote. After uniting several left-wing parties, Mr. Mitterrand was elected first secretary of the Socialist Party in 1971. Following a narrow defeat in the presidential election of 1974, he was elected president in May 1981.

President Mitterrand ruled from 1981 to 1986 with a socialist government, but had to share power, or "cohabit," with a government of the right, led by Prime Minister Chirac, from 1986 to 1988.

As a result of his reelection in May 1988, and the latest legislative elections in June 1988, President Mitterrand has recovered full presidential authority.

This will be Mr. Mitterrand's 11th economic summit. He will be accompanied by Roland Dumas, minister of state and minister of foreign affairs, and by Pierre Bérégovoy, minister of state and minister of the economy, finance and the budget. Mr. Mitterrand's personal representative and special adviser is Anne Lauvergeon.

Canada-France Relations

Relations between Canada and France improved considerably during the 1980s. This enabled Canada to assume joint leadership of the francophone summits in Paris in 1986, Québec in 1987 and Dakar in 1989.

Canada-France relations were also enhanced by a series of high-level visits beginning in 1986. President Mitterrand paid four visits to Canada, including the first state visit by a French president to Canada in 20 years. Conversely, Jeanne Sauvé paid the first state visit to France by a Canadian governor general. Prime Minister Mulroney has travelled to France for an official visit, three working trips and two summits (the francophone and the economic).

Bilateral trade between France and Canada amounted to close to \$3.7 billion in 1990. France's share (\$2.4 billion) increased by 20 per cent, due largely to the resumption of airbus aircraft deliveries to Canadian carriers. Canada's portion, at \$1.3 billion, maintains our trading position.

Investment opportunities, technological partnerships and acquisition of financial services reflect the present goals and trends of our close trade links with France.

Strong French interests in Canada are demonstrated particularly in the insurance sector and through the planned acquisition of De Havilland. In the Canadian industrial sector, Bombardier, Cascades Paper, Northern Telecom and a few other large entities are achieving a good measure of commercial success abroad through their French subsidiaries, either acquired (AFN by Bombardier) or new operations (Northern Telecom plant built in Verdun).

Strong leads in the early '90s for expanded trade in biotechnology, computer services, cable and communications, environmental protection, and industrial textiles are being pursued by Canadian companies in, or by way of, France to the European market.

The audio-visual sector is a dynamic area of relations between Canada and France. Since 1983, the two have signed several film and television production agreements, including joint projects surpassing \$200 million. Canada and France are also partners in TV5, the international francophone channel, one of the tangible by-products of the francophone summits.

UNITED STATES

President George Bush

George Bush was born June 12, 1924 in Milton, Massachusetts. Following World War II, in which he fought as a navy pilot in the Pacific, Mr. Bush entered Yale University. Upon completing his degree in economics in 1948, he moved to Texas where he joined the oil industry. A successful businessman, he was co-founder of three firms: Bush-Overbey Oil in 1951, Zapata Petroleum Corporation in 1953, and Zapata Offshore Company in 1954.

George Bush began his public career in 1966 when he was elected from the Texas 7th district to the U.S. house of representatives. In December 1970, he was appointed ambassador to the United Nations, a position he held for two years. From January 1973 to September 1974, he was chairman of the Republican National Committee. In October 1974, he went to Beijing to serve as chief of the U.S. liaison office in the People's Republic of China. From 1976 to 1977, he was director of the Central Intelligence Agency.

Selected as Ronald Reagan's running mate in the November 1980 presidential election, George Bush served two terms as vice-president of the United States. On Jan. 20, 1989, he was sworn in as 41st president of the United States.

Mr. Bush will be attending his third Economic Summit. He will be accompanied by Secretary of State James Baker, and Treasury Secretary Nicholas Brady. President Bush's personal representative is Robert Zoellick, counsellor of the State Department.

Canada-U.S. Relations

Canada and the U.S. are partners in the largest bilateral trading relationship in the world, allies in the defence of North America and Europe, and share a common responsibility for the preservation of the North American environment.

Canada and the U.S. are each other's most important customer. In 1990 total two-way trade in goods and services was C\$257.1 bil-

lion, with the U.S. having a slight surplus (C\$230 million, or .09 per cent of the total value of bilateral trade). Overall, the U.S. absorbs 76 per cent of Canadian exports. About 69 per cent of Canadian imports come from the U.S. market. Non-merchandise trade, including tourism, services, investment income and transfers, is a significant element of the full bilateral economic relationship.

Canada is by far the largest single customer for U.S. sales abroad, accounting for 21 per cent of all U.S. exports. Canada buys more U.S. products than Germany, the U.K., France and Italy combined; Ontario alone buys more U.S. goods than all of Japan. According to the U.S. Department of Commerce, over two million manufacturing jobs in the U.S. rely on Canadian imports.

The U.S. is the largest foreign investor in Canada, accounting for US\$68 billion or almost 70 per cent of the stock of foreign direct investment in Canada. Reinvested earnings of Canadian affiliates continue to be the major source of U.S. direct investment in Canada.

The stock of Canadian direct investment in the U.S. is also significant, amounting to US\$32 billion. Canada thus ranks as the fourth-largest foreign investor (8 per cent) in the U.S., after the U.K. (30 per cent), Japan (17.5 per cent) and the Netherlands (15 per cent). In 1989, Canada was third in both number and value of investment transactions in the U.S.

The Free Trade Agreement has been in effect for over two years. Implementation is proceeding well as part of a 10-year phase-in that will eventually eliminate all bilateral tariffs and most other border restrictions. It is an important step in assisting continued competitive growth in the Canadian and U.S. economies, and encouraging the steady development of the bilateral trading relationship in a manner that serves the best interests of both countries.

The announcement in February 1991, by Prime Minister Mulroney, President Bush and President Salinas that Canada, the U.S.

and Mexico had agreed to pursue negotiations aimed at creating a North American free trade agreement builds on this important economic liberalization.

In the field of environmental relations, Canada and the U.S. have made significant progress in overcoming and resolving difficult problems of transboundary water pollution and wildlife management. In particular, a bilateral air quality accord (AQA) was successfully achieved on March 13, 1991, and the bill amending the U.S. Clean Air Act (including a 10-million tonne reduction in SO₂ emissions by the year 2000) was signed by the president in November 1990.

Co-operation for the defence and security of North America is a continuing priority in Canada-U.S. relations. The renewal of the North American Air Defence Command (NORAD) agreement in April 1991 is the most recent manifestation of this important aspect of our bilateral relationship.

Overall management of the relationship is provided through frequent meetings between the prime minister and the president and between Canadian ministers and their U.S. counterparts. High-level consultations with the Bush administration remain vital to the conduct of effective relations. Prime Minister Mulroney and President Bush have met 11 times since the latter's inauguration in January 1989.

FEDERAL REPUBLIC OF GERMANY

Chancellor Helmut Kohl

Helmut Kohl was born on April 3, 1930, in Ludwigshafen, Rhineland-Palatinate. He studied law, sociology, political science and history at the universities of Frankfurt and Heidelberg and received his doctorate in 1958.

Dr. Kohl joined the Christian Democratic Union (CDU) in 1947 and by 1955 had become a member of the party executive for his home state of Rhineland-Palatinate. In 1959, Dr. Kohl was elected to the state assembly and between 1969 and 1976 served as state minister president (premier). He has been a member of the Bundestag (federal lower house) in Bonn since 1976, the same year he was the CDU candidate for chancellor and chairman of his party's Bundestag caucus.

Dr. Kohl became chancellor in October 1982. His centre-right coalition government of the CDU, the Christian Social Union (CSU) and moderate Free Democratic Party (FDP) was reelected for a third consecutive mandate in December 1990. His central pre-occupation following the elections has remained the issue of German unification.

Chancellor Kohl made his first official visit to Canada in June 1988.

London will be Chancellor Kohl's ninth Economic Summit.

He will be accompanied by the minister of foreign affairs and deputy chancellor, Hans-Dietrich Genscher; the minister of finance, Dr. Theodor Waigel; and the minister of economics, Juergen W. Mollemann. Chancellor Kohl's personal representative is Dr. Horst Köhler, state secretary in the Ministry of Finance.

Canada-F.R.G. Relations

Relations between Canada and the F.R.G. are intensive and diversified. The F.R.G. is one of Canada's most important defence partners, the third-largest source of foreign direct investment (after the U.S. and the U.K.), the fourth-largest trading partner (after the U.S., Japan and the U.K.), and the most important Western European partner in science and technology.

Co-operation within the North Atlantic Treaty Organization (NATO) has created a close relationship through the commitment of Canadian troops in Germany and the training of German soldiers and airmen in Canada.

Canada wishes to develop further its bilateral contacts with the F.R.G., which plays a central role in European integration. Consequently, high-level visits at the federal and provincial levels have increased, as have trade missions and parliamentary exchanges, which have reinforced institutional ties and our technical co-operation.

Two-way trade has grown dramatically over the past decade to the level of \$6 billion in 1990. The F.R.G. has consistently enjoyed a trade surplus with Canada (which last year amounted to roughly \$1.6 billion), while Canada's exports to the F.R.G. increased last year by 16 per cent to \$2.2 billion.

Particularly promising fields for further bilateral co-operation and development are the environment, high technology, manufacturing, and the commercial prospects related to German unification and new markets in Central and Eastern Europe.

JAPAN

Prime Minister Toshiki Kaifu

Mr. Kaifu was born on Jan. 2, 1931, in Aichi Prefecture, about 300 kilometres west of Tokyo. He studied law at Waseda University in Tokyo, where he was a member of the oratory society. Mr. Kaifu graduated from Waseda in 1954.

After serving as a political adviser, Mr. Kaifu won his first election to the house of representatives in 1960. He has served in the diet for 10 consecutive terms.

In the early 1960s, Mr. Kaifu headed the student subsection of the Liberal Democratic Party (LDP). He is a member of the Komoto faction within the LDP.

In 1966 Mr. Kaifu was named parliamentary vice-minister of labour. He first entered the cabinet in 1974, when Prime Minister Miki appointed him deputy chief cabinet secretary. In 1976 he was appointed minister of education in the Fukuda cabinet, and he returned to that position in 1985 in the Nakasone cabinet. On August 9, 1989, Mr. Kaifu became prime minister.

London will be Mr. Kaifu's second Economic Summit as prime minister. He attended the summits of 1975, 1976 and 1985 as a member of the Japanese delegation. In London, Mr. Kaifu will be accompanied by Foreign Minister Taro Nakayama, Finance Minister Ryutaro Hashimoto, and International Trade and Industry Minister Eiichi Nakao. His personal representative is Koji Watanabe, deputy foreign minister.

Canada-Japan Relations

Japan is the Western world's second-largest economy and third-leading trading nation. It is Canada's most important single trading partner after the U.S. In turn, Canada is Japan's eighth-largest trading partner, with total two-way trade of \$17.7 billion.

Canadian exports to Japan in 1990 were \$8.2 billion, concentrated in energy, forestry, mineral, agricultural and fisheries products. Exports of fully manufactured goods

are increasing. Imports in 1990 were \$9.55 billion. Over one third of Canada's imports from Japan consist of motor vehicles and related equipment.

In 1990, cumulative direct Japanese investment in Canada had reached an estimated \$4.5 billion. Much of this investment is concentrated in the pulp and paper, automotive and hotel sectors. Air links between the two countries have expanded and in 1989 Japanese tourist arrivals reached 480,000. Japanese portfolio investment in Canada is about \$44 billion, with over one half held in the form of Government of Canada bonds.

The importance and diversity of Canada-Japan relations is underlined by the more than 22 consultative mechanisms that provide official fora for discussion. These have helped expand bilateral relations in economic, cultural and political areas.

Canada and Japan show a mutual interest in co-operation in high technology. A study on complementarity in science and technology, undertaken by the Canadian and Japanese science councils, provided priorities for strengthened co-operation in key sectors.

Canada-Japan relations are being given a further boost through the launching of the Pacific 2000 program under the government's Going Global trade strategy. Pacific 2000 involves a variety of initiatives to enable Canadians to meet the challenge of Asia Pacific's dynamic marketplace.

Some of the specific activities include support for trade development in key sectors, co-operative projects in scientific research, financial support for the development of language-training facilities, and enhanced communications packages designed to raise Canada's profile as a Pacific nation.

Prime Minister Brian Mulroney's extended official visit to Japan in May 1991 reinforced the warm personal relationship with Prime Minister Kaifu and helped strengthen ties. This visit marked the fourth meeting between the two prime ministers and was Prime Minister Mulroney's second official trip to Japan.

ITALY

Prime Minister Giulio Andreotti

Giulio Andreotti was born on Jan. 14, 1919, in Rome. He is a lawyer, writer and journalist and has been prime minister of Italy on six previous occasions.

Mr. Andreotti was one of the founders and editors of the Italian daily newspaper *Il Popolo*. He helped found the Christian Democratic Party and is a member of its executive. He was elected to the national council of the Christian Democratic Party in 1946, and has been elected to the chamber of deputies for the constituency of Rome-Lazio in every election since 1948.

From 1948 to 1954, Mr. Andreotti was under-secretary of state to the prime minister. He has served as minister of most major portfolios in the Italian government, including foreign affairs, finance, industry, defence, the interior, and the treasury. In 1983, he was appointed minister of foreign affairs by Prime Minister Craxi and was returned to that position by Prime Minister De Mita in 1988. In July 1989 and again in April 1991, Mr. Andreotti was appointed president of the council (prime minister).

In London, Mr. Andreotti will attend the Economic Summit for the second time as head of government. He will be accompanied by the Italian Foreign Minister, Gianni de Michelis, and the Minister of the Treasury, Guido Carli. His personal representa-

tive is Umberto Vattani, diplomatic adviser to the prime minister.

Canada-Italy Relations

Bilateral contacts with Italy have intensified in recent years in recognition of the growing importance of Italy as a major economic power. The Italian-Canadian community of about one million provides the foundation for Canada's vigorous relationship with Italy. Two-way trade increased from \$3.1 billion in 1989 to \$3.26 billion in 1990. Canadian exports to Italy increased by 18 per cent in 1990, reaching \$1.3 billion. Canadian imports from Italy decreased slightly from just over \$2 billion in 1989 to just under \$1.95 billion in 1990.

To strengthen and diversify co-operation between Canada and Italy, particularly to develop trade and investment, the two governments concluded an economic and industrial co-operation agreement on Aug. 1, 1988. Several important trade and industrial missions to Italy have taken place since then.

In January 1989, John Crosbie, Canada's former minister of international trade, led a business delegation to Italy. Renato Ruggiero, Italy's former minister for foreign trade, visited Canada in September 1990. In October 1990, a delegation of the Federation of Italian Industrial Associations (CONFINDUSTRIA) met with Canadian industrialists in Ottawa.

EUROPEAN COMMUNITY

President of the Commission Jacques Delors

Jacques Delors was born in 1925 and is a French national. Before he became president of the Commission of the European Communities in January 1985, Mr. Delors was a banker, public servant, academic and politician. From 1982 to 1984 he was the French minister of the economy and finance.

As president of the commission, Mr. Delors strongly favours reform and renewal of the European Community (EC). His presidency has been marked by initiatives such as the Europe 1992 program, which aims to eliminate all existing internal barriers to the circulation of goods, services, persons and capital by the end of 1992. Mr. Delors has also maintained a strong interest in monetary affairs, advocating greater central co-ordination within the EC in support of the Europe 1992 program.

Mr. Delors will be accompanied by Frans Andriessen, vice-president of the commission; Ruud Lubbers, prime minister of the Netherlands and president of the European Council; and Hans van den Broek, foreign minister of the Netherlands and president of the European Community Foreign Affairs Council. Mr. Delors' personal representative is Pascal Lamy, chef de cabinet.

The European Community

The European Community is a supranational entity combining 12 member states in three communities: the European Economic Community or Common Market, the European Coal and Steel Community, and the European Atomic Energy Community. Together they are known as the European Community or EC. The current members are France, Italy, the Federal Republic of Germany, the U.K., Belgium, Denmark, the Netherlands, Greece, Ireland, Spain, Portugal and Luxembourg. They have yielded important sovereign powers to the EC, in particular, control of foreign and domestic trade, agriculture and fisheries.

The two governing bodies most involved in the operation of the EC are the Commission of the European Communities, which is the executive body, and the European Council, composed of ministers of the member states.

The commission consists of outstanding citizens from the various member states. A number have served previously as ministers in their national governments, but their allegiance upon joining the commission belongs to the EC. The council, moreover, represents the member states. The presidency of the council changes every six months; presently it is occupied by the Netherlands.

While the commission has the exclusive right to prepare EC policies and legislation, it can only act under the authority transmitted by the founding treaties or by a council vote. The latter body has also retained control of European political co-operation, the mechanism whereby a European foreign policy is developed and applied.

Canada-EC Relations

Taken as a whole, the EC is our second-largest trading partner. With bilateral trade at \$26.7 billion in 1990, Canadian exports to the EC increased by 2.6 per cent, to reach \$11.8 billion. During the previous three years, exports increased at an average annual rate of over 9 per cent. Meanwhile, Canadian imports in 1990 were \$14.9 billion, up 2.8 per cent from 1989.

In 1989, Canadian exports to the EC in the services sector totalled \$3.4 billion, while payments grew to \$5 billion, for a deficit of \$1.6 billion on the services account. Tourists from the EC represent by far our largest foreign market, generating more than \$1 billion yearly.

In 1990, foreign direct investment in Canada by the EC was estimated at \$30 billion, increasing annually an average of 13.7 per cent over the last five years. Canadian investment in the EC in 1990 was estimated at \$18 billion, an increase of \$3 billion from 1989. Canadian investment in the EC

has increased at an average annual rate of 21.9 per cent since 1986.

Canada-EC bilateral relations are developing in other directions as well. Under a 1976 framework agreement, Canada is expanding its industrial, scientific and technological co-operation programs, which are yielding excellent results.

In November 1990, Canada and the EC signed the Trans Atlantic Declaration which provides for regular, high-level consultations and co-operation on a wide range of bilateral and international issues. Mr. Delors and the prime minister of Luxembourg (then holding the presidency of the council) visited Ottawa in April 1991, for the first meeting with Prime Minister Mulroney under the declaration.

INTERNATIONAL ECONOMIC ORGANIZATIONS AND INSTITUTIONS

African Development Bank Group

The African Development Bank Group, founded in 1964, is headquartered in Abidjan, Côte d'Ivoire. The group has 75 members, of which 51 are from the region. Canada became a member of the bank in 1982, when non-regional membership was first allowed. Nevertheless, we played a major role in the creation of the concessional African Development Fund in 1972.

The group's main function is to promote the economic and social development of its regional member countries, and to stimulate intra-African commerce. Total lending of the bank in 1990 totalled US\$1,987 million. Canada is the fourth-largest non-regional shareholder of the bank, and ranks third, on a cumulative basis, in the fund.

Asian Development Bank

Headquartered in Manila, Philippines, the Asian Development Bank was founded in 1966 and has 51 member countries (35 from the Asia-Pacific Region). The principal function of the Asian Development Bank, and the concessional Asian Development Fund, is to promote the economic and social development of Asia through project loans, equity investments and technical assistance.

Bank operations in 1990 totalled US\$4 billion. Canada, the seventh-largest contributor to the bank and the third-largest contributor to the fund, is encouraging the bank to strengthen its policy dialogue with the borrowing member countries.

Cairns Group

The Cairns Group of agricultural exporters is a group of 13 countries (Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay) whose common goal is to promote agricultural trade reform.

The Cairns Group was named after Cairns, Australia, the site of its first ministerial-

level meeting, held in August 1986. It is credited with establishing far-reaching objectives for agriculture in the Uruguay Round.

Caribbean Development Bank (CDB)

The CDB plays an important role in financing economic development in the Caribbean, with loan approvals of over US\$110 million in 1990. Canada is one of the largest contributors to the CDB, with 10.27 per cent of the voting shares. On May 7, 1991, Canada pledged US\$20 million to the third replenishment of the Special Development Fund of the CDB. The CDB is according increased priority to social issues, the environment, women in development and sound economic policies.

Conference on Security and Cooperation in Europe (CSCE)

The CSCE is the first truly Pan-European and transatlantic political organization. Created in 1975 by the Helsinki Final Act, it links Canada, the U.S. and all 33 European countries.

The CSCE was initially a series of conferences dealing with the general principles governing relations among participating states. These principles cover security matters, respect for human rights and issues related to political, economic, humanitarian, scientific, technological and environmental co-operation.

On Nov. 21, 1990, the summit of heads of state and of government of CSCE countries institutionalized the process that began in Helsinki in the Charter of Paris. A permanent secretariat was established in Prague, a conflict prevention centre in Vienna and an office of free elections in Warsaw. A committee of senior officials and a council of foreign ministers were also created.

The council met for the first time in Berlin on June 19 and 20, 1991. Heads of state and of government will also attend regular CSCE follow-up meetings. The next one

will be held in Helsinki in the spring of 1992.

The foundations for a parliamentary assembly were laid at a special meeting in Madrid on April 3, 1991, which was attended by parliamentarians from all CSCE countries. The first session of this assembly will be held in Budapest in July 1992.

European Bank for Reconstruction and Development (EBRD)

The EBRD, with headquarters in London, was inaugurated in April 1991. The purpose of the EBRD is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in Central and Eastern European countries committed to, and applying, the principles of multi-party democracy, pluralism and market economics. Canada is a founding member of the bank with a 3.4 per cent share of its capital base. Deputy Prime Minister and Finance Minister Donald Mazankowski is the governor for Canada.

General Agreement on Tariffs and Trade (GATT)

Since 1948, GATT has functioned as the principal international body concerned with liberalizing world trade, and negotiating the reduction of trade restrictions and other measures which distort international trade. Current GATT membership numbers 102 countries covering 90 per cent of world trade. GATT provides clear, workable rules to govern international trade in goods, though current negotiations under the Uruguay Round aim to bring investment, services, intellectual property, and trade in textiles and clothing under GATT disciplines.

One of the major functions of GATT is to provide a framework for the resolution of international trade disputes between governments. Where informal bilateral consultations fail, contracting parties may turn to the GATT dispute settlement process to engage in formal bilateral consultations. Ultimately, if such consultations are unsuccessful in resolving bilateral differences, there is recourse to a GATT panel.

The GATT Secretariat has its headquarters at the United Nations in Geneva. The director general is Arthur Dunkel (Switzerland).

Group of Seven (G-7)

The Group of Seven finance ministers (G-7) was created at the 1986 Tokyo Economic Summit. It consists of the finance ministers of the summit countries (Canada, U.S., U.K., Federal Republic of Germany, France, Italy and Japan), and was formed to enhance the surveillance and co-ordination of international economic policies, with a view to improving the economic performance of member countries.

Since its inception, the G-7 has met regularly, often with the participation of the managing director of the IMF. At its Paris meeting in 1987, the G-7 adopted the Louvre Accord, expressing the commitment of the members to intensified policy co-ordination to promote more balanced economic growth and to reduce existing fiscal and external imbalances.

Group of 24 (G-24)

At the 1989 Paris Economic Summit, leaders decided to extend economic assistance to Poland and Hungary. They asked the Commission of the European Communities to co-ordinate this assistance. The commission responded by inviting the 24 member countries of the OECD to exchange information, establish priorities and review progress. This group, which meets in Brussels, calls itself the G-24. Since January 1991, the G-24 has also been extending co-ordinated economic assistance to the Czech and Slovak Federal Republic (C.S.F.R.), Bulgaria, Romania and Yugoslavia.

Inter-American Development Bank (IDB)

The IDB is an important source of development finance and related technical assistance for Latin America and the Caribbean, with loan approvals of US\$47 billion over the last 30 years, including US\$3.8 billion in 1990. Canada holds 4.39 per cent of the total shares of the IDB. The IDB is expanding its activities in the areas of poverty reduction, private enterprise development, the environment and debt reduction.

International Development Association (IDA)

The IDA is the concessional financing arm of the World Bank. IDA loans are concen-

trated in the poorest developing countries and are issued at no interest, with very long grace and repayment periods. The IDA obtains its funds mainly from the contributions of its richer members. Replenishments are arranged every three years through negotiations among the IDA's donors. The ninth replenishment, concluded in January 1990, resulted in approximately US\$15 billion being committed to the IDA.

Canada, the seventh-largest contributor, committed US\$829 million to the IDA replenishment.

International Monetary Fund

The IMF was established in December 1945. Its purpose is to promote international monetary co-operation and, through enhancing the openness and stability of the international payments system, to promote international trade. The IMF makes financing available to member countries in balance-of-payments difficulties and assists them in improving their economic management. It also oversees the functioning of the international monetary system.

The Interim Committee of the Board of Governors, established in 1974, usually meets twice a year. It comprises 22 members representing the same countries or groups of countries ("constituencies") as those on the executive board. The Development Committee (the Joint Ministerial Committee of the Board of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) was also set up in 1974 with a structure similar to that of the Interim Committee. It reviews development policy issues and financing requirements.

There are 155 member nations of the IMF, including Canada. The IMF managing director is Michel Camdessus (France). The governor for Canada is Finance Minister Donald Mazankowski. Canada has a seat on the executive board.

Organization for Economic Co-operation and Development (OECD)

The OECD was founded in 1961. It replaced the Organization for European Economic Co-operation (OEEC), established in 1948 to co-ordinate European requests for as-

sistance under the Marshall Plan. Canada was one of the founding member countries.

The OECD, which has its headquarters in Paris, is the forum where representatives of the governments of the industrialized democracies share information on their domestic economies and consult on approaches to international economic issues. It also discusses environmental issues, especially the link between environment and economy, as well as a broad spectrum of social policies.

Reflecting the growing integration of the world economy, the OECD has recently initiated dialogue with a variety of non-member countries, most notably the dynamic Asian economies (see DAEs in following chapter). It has also initiated a comprehensive program of technical assistance involving public policy advice with the countries of Central and Eastern Europe.

The OECD Council, comprising all 24 member states, including Canada, meets once a year at the ministerial level. The last ministerial meeting took place June 4-5, 1991. The secretary-general is Jean-Claude Paye (France).

Paris Club

The Paris Club is an informal group of representatives of official creditors who meet under the chairmanship of the French Treasury. They reschedule direct government credits and government-guaranteed commercial credits provided to other countries. While the club has been in existence since the 1950s, its meetings were irregular until the onset of widespread debt-servicing difficulties among developing countries in the early 1980s. Since then, its meetings have been monthly.

Standard Paris Club procedures involve stretching out a country's payment of principal — and in many cases, of interest — over a period of 10 years. For the poorest countries and more recently for lower-middle-income countries, this period has been extended to 15-20 years. In return, the debtor country is required to adopt an IMF-supported program of economic reform, in order to improve its economic and financial situation so that the country will be able to service its external obligations.

United Nations Conference on Environment and Development (UNCED)

The United Nations Conference on Environment and Development will be held in Rio de Janeiro from June 1-12, 1992. UNCED is intended to be a successor to the Stockholm Conference on the Human Environment of 1972. It will bring together heads of government and of state from all over the world to discuss the integration of environment and development strategies on a global scale.

The secretary-general of the conference is a Canadian, Maurice Strong, who was also the secretary-general of the Stockholm conference. Strong has a 40-person secretariat based in Geneva, to assist him in organizing the conference and in preparing the necessary analytic studies to focus discussion of the issues.

The preparatory process for the conference is managed by a preparatory committee of the United Nations, under the chairmanship of Ambassador Tommy Koh of Singapore. Two more meetings of the preparatory committee will be held before the final conference — one in Geneva in August 1991 and one in New York in March 1992.

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD meets every four years at the ministerial level to consider international economic questions that affect the development plans and prospects of the developing countries. It has a permanent secretariat and a number of bodies and committees that meet on a regular basis in Geneva.

UNCTAD VII, held in 1987, produced for the first time an agreed assessment of the world economic situation along with some practical policy and work orientations for the international community. UNCTAD VIII will take place in Cartagena, Colombia from Feb. 8-25, 1992.

Canada supports UNCTAD financially through an annual assessed contribution to the UN budget. In addition, Canada provides approximately \$1.25 million per year for trade development and promotion training projects implemented by the UNCTAD/GATT International Trade Centre and \$5,000 annually for an UNCTAD project for women. The secretary-general is Kenneth Dadzie (Ghana).

World Bank

The World Bank is a group of four institutions: the International Bank for Reconstruction and Development (IBRD), established in 1945; the International Development Association (IDA); the International Finance Corporation (IFC); and a fourth institution, the Multilateral Investment Guarantee Agency (MIGA), launched officially on June 8, 1988. The common objective of the four institutions is to help raise standards of living in developing countries by channelling financial resources to those countries from developed countries.

There are 153 member nations of the IBRD, including Canada. The president is Barber Conable (U.S.) who will be succeeded in September 1991 by Lewis T. Preston. Traditionally, the president of the IBRD comes from the U.S., while the managing director of the IMF comes from Europe. The governor for Canada is Donald Mazankowski, deputy prime minister and minister of finance. Canada is the sixth-largest contributor to the IBRD, providing US\$287 million in 1989-90.

GLOSSARY OF ECONOMIC TERMS

Aid Quality

Aid quality refers to the effectiveness of development assistance in promoting and sustaining economic and social development. It is often measured by the terms of assistance financing, whether the assistance is targeted at the poorest countries and peoples, and by the extent to which the assistance is not tied to procurement in the donor country.

Balance of Payments

A tabulation of a country's credit and debit transactions with other countries and international institutions. These transactions are divided into two broad groups: current account and capital account.

Balance of Trade

A component of the balance of payments; the surplus or deficit that results from the difference between a country's expenditures on merchandise imports and receipts derived from its merchandise exports.

Brady Plan

Named for the proposals made by U.S. Treasury Secretary Nicholas Brady on March 10, 1989, the Brady Plan was initiated to strengthen the debt strategy. The aim of the Brady Plan is to reinforce incentives for sustained adjustment by debtor countries and to reduce the burden of commercial debt by encouraging commercial banks to negotiate, on a case-by-case basis, refinancing packages that include options for debt, debt service reduction and new credits. The International Monetary Fund (IMF) and the World Bank have agreed to make up to US\$25 billion available for such debt reduction operations, and Japan is providing an additional \$10 billion.

Capital Account

The portion of a country's balance of payments that records capital transactions, including financial flows related to international direct investment, investment in government and private securities, interna-

tional bank transactions, and changes in official gold holdings and foreign exchange reserves.

Common Agricultural Policy (CAP)

A set of policies and devices by which member states of the European Community (EC) seek to merge their individual agricultural programs into a unified effort to promote regional agricultural development, fair and rising standards of living for the farm population, stable agricultural markets, increased agricultural productivity, and methods of dealing with security of food supply

Contracting Party

A country which is a member of the General Agreement on Tariffs and Trade (GATT).

Countervailing Duties (CVD)

Additional duties imposed by an importing country to offset government subsidies in an exporting country, when subsidized imports cause or threaten to cause material injury to a domestic industry in the importing country.

Current Account

The portion of a country's balance of payments that records visible trade (exports and imports), invisible trade (income and expenditures for services), profits earned from foreign operations, interest and transfer payments.

Current Account Imbalances

The surplus or deficit in a country's aggregate total transactions in merchandise trade, services, private and official transfers. A structural imbalance is said to exist when the current account of a country remains in a chronic surplus or deficit situation over an extended period of time.

Dynamic Asian Economies (DAEs)

A comprehensive term employed by the Organization for Economic Co-operation and Development (OECD) to designate those Asian economies that are currently experiencing a rapid growth in their gross national product. DAEs are included within the broader group of newly industrialized economies (NIEs). The DAEs include Malaysia, Thailand, Republic of Korea, Singapore, Taiwan and Hong Kong.

Enhanced Structural Adjustment Facility (ESAF)

(See Structural Adjustment Facility.)

European Currency Unit (ECU)

A "basket" of specified amounts of each EC currency. Its value is determined by using the current market rate of each member currency. The ECU is also the EC's accounting unit.

European Energy Charter

A proposal, originating with Dutch Prime Minister Lubbers and now under consideration by the EC, for Western European countries to aid in developing the oil and gas resources, and nuclear generating capacity, of the U.S.S.R. and Central and Eastern Europe. Western Europe would thus achieve a new secure source of supply and the U.S.S.R. and Central and Eastern Europe would receive development assistance and further develop a valuable hard currency export.

European Monetary System (EMS)

Established in 1979, it was designed to create a zone of monetary stability to minimize wild currency fluctuations. The EMS is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms. Its core is the ECU, which is used to fix bilateral central rates for the eight participating EC currencies.

Export Credit

An export credit is a line of credit offered by the exporting country to the importing country for the purchase of the export good.

Export Subsidies

Payments or other financial benefits, contingent on a commitment to export, that are provided by government to domestic producers or exporters. GATT Article XVI recognizes that subsidies in general, and especially export subsidies, may have trade-distorting effects. Article XVI and the Agreement on Subsidies and Countervailing Duties (the Subsidies Code) negotiated during the Tokyo Round include an outright prohibition of export subsidies by developed countries for manufactured and semi-manufactured products.

External Imbalances

Another term for a chronic surplus or deficit in a country's current account or balance of payments.

Functioning of the GATT System (FOGS)

A negotiating group established in the Uruguay Round to improve the operation of GATT as a trade policy organization, including enhancing the role of ministers, improving surveillance and fostering better links with the IMF and World Bank.

Louvre Accord

The agreement achieved at the Group of Seven finance ministers (G-7) meeting in Paris on February 22, 1987. The ministers agreed that there was a need to intensify economic policy co-ordination efforts in order to promote more balanced global growth and to reduce existing fiscal and external imbalances. To this end, each country undertook specific policy commitments. The accord contained measures to stimulate domestic demand in the economies of Japan and the Federal Republic of Germany and to reduce the U.S. fiscal deficit.

Macroeconomic Policy

Policy geared toward influencing the overall aggregates of the economy, such as employment, production, and the rate of inflation,

through measures affecting the fiscal balance and the supply of money and credit.

Multilateral Trade Negotiations (MTNs)

The negotiations of the contracting parties of GATT. (See GATT in previous chapter.)

Multilateral Surveillance

The use of economic indicators to compare economic policies among countries and the analysis of the interaction of those economic policies.

The G-7 has developed and implemented strengthened arrangements for multilateral surveillance and co-ordination. As was noted in the Venice Summit Economic Declaration, the new process of co-ordination, involving the use of economic indicators, will enhance efforts to achieve more consistent and mutually compatible policies by summit countries. (See Group of Seven in previous chapter.)

Newly Industrializing Economies (NIEs)

Developing economies that have sustained rapid growth (over six per cent per annum) of their gross national product over the past 12 years, and that have a high proportion of manufactured products as a percentage of total exports. Examples include Brazil, the Republic of Korea, Singapore, Mexico, Taiwan and Hong Kong.

Plaza Agreement

The Group of Five finance ministers (G-5) (from France, the Federal Republic of Germany, Japan, the U.S. and the U.K.) met at the Plaza Hotel in New York in September 1985. The formal communiqué prepared at the meeting was the first public statement released by G-5.

The G-5 ministers agreed to a co-ordinated exchange market intervention that would drive down the value of the U.S. dollar, because it was too strong in relation to other currencies and no longer reflected fundamental economic conditions.

Punta del Este

A city in Uruguay that hosted the conference that launched the Uruguay Round of multilateral trade negotiations.

Sherpas

The personal representatives of the leaders of the summit countries. These representatives are responsible for overseeing the preparatory process for summit meetings and advising their leaders on summit matters. The sherpas, at their preparatory meetings, seek out areas of agreement which may form the elements of a summit consensus approach on the main issues. Prime Minister Mulroney's personal representative is Derek H. Burney, Canadian Ambassador to the U.S.

Special Drawing Rights (SDRs)

These were created in 1969 by the IMF as a supplemental international monetary reserve asset. SDRs are available to governments through the IMF and may be used in transactions between it and member governments. IMF members have agreed to regard SDRs as complementary to gold and reserve currencies in settling their international accounts. The SDR has become the unit of account used by the IMF and several national currencies are pegged to it.

Structural Adjustment

The adjustment of economies and institutions to microeconomic factors and to regulatory and institutional reforms. Structural features of national economies include the supply and allocation of factors of production; the market for goods and services; and the taxing, spending and regulatory functions of the public sector.

Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF)

SAF, established in 1986, is a funding facility of the IMF. It provides loans to low-income member countries facing protracted balance of payments problems in support of medium-term macroeconomic and structural adjustment programs.

The Enhanced Structural Adjustment Facility, established in December 1987, strengthens the ability of the international financial community to support the structural adjustment growth-oriented programs of eligible countries by increasing significantly the resources available to low-income countries.

Sustainable Development

On May 25, 1989, the General Conference of the United Nations Environment Program adopted a definition of sustainable development which included the following:

- sustainable development meets the needs of the present, without compromising the ability of future generations to meet their own needs;
- it implies progress towards national and international equity, inducing assistance to developing countries;
- it implies the existence of a supportive international economic environment resulting in sustained economic growth and development in all countries, particularly developing ones, which is of major importance for sound management of the environment; and
- it implies incorporation of environmental concerns and considerations into development planning and policies.

Toronto Terms

At the 1988 Toronto Economic Summit, G-7 participants agreed that the Paris Club would provide concessional reschedulings of the bilateral official debt of low-income Afri-

can countries following IMF-supported adjustment programs (Toronto terms have since been extended to two low-income countries outside Africa as well). The Toronto terms menu includes three options: 33 per cent reduction of principal; longer repayment periods; debt service reduction via below market rates of interest. Twenty countries have benefited from Toronto terms thus far. (See Paris Club in previous chapter.)

Trade-Related Investment Measures (TRIMs)

A Uruguay Round negotiating group established to examine the trade-restrictive and distorting effects of investment measures. The group will develop, as appropriate, GATT provisions that would avoid such adverse effects.

Trade-Related Intellectual Property (TRIP)

A Uruguay Round negotiating group that is developing new rules concerning intellectual property, including standards and enforcement of copyright, patent and trademark rights.

Uruguay Round

Eighth in a series of multilateral trade negotiations held under the auspices of GATT. This round was launched at a ministerial meeting in Punta del Este, Uruguay, in September 1986 and is scheduled to be completed by the end of 1991.

HOUSTON SUMMIT DECLARATIONS

Economic Declaration July 11, 1990

1. We, the Heads of State and Government of the seven major industrial democracies and the President of the Commission of the European Communities, meeting in Houston for our annual Economic Summit, celebrate the renaissance of democracy throughout much of the world. We welcome unreservedly the spread of multiparty democracy, the practice of free elections, the freedom of expression and assembly, the increased respect for human rights, the rule of law, and the increasing recognition of the principles of the open and competitive economy. These events proclaim loudly man's inalienable rights: When people are free to choose, they choose freedom.

2. The profound changes taking place in Europe, and progress toward democracy elsewhere, give us great hope for a world in which individuals have increasing opportunities to achieve their economic and political aspirations, free of tyranny and oppression.

3. We are mindful that freedom and economic prosperity are closely linked and mutually reinforcing. Sustainable economic prosperity depends upon the stimulus of competition and the encouragement of enterprise — on incentives for individual initiative and innovation, on a skilled and motivated labor force whose fundamental rights are protected, on sound monetary systems, on an open system of international trade and payments, and on an environment safeguarded for future generations.

4. Around the world, we are determined to assist other peoples to achieve and sustain economic prosperity and political freedom. We will support their efforts with our experience, resources, and goodwill.

The International Economic Situation

5. In recent years, substantial progress has been achieved in promoting a stronger world economy through sound macroeconomic policies and greater economic efficiency. The economic expansion in our coun-

tries, now in its eighth year, has supported notable income growth and job creation in the context of rapid growth of international trade. However, unemployment remains high in a number of countries. Inflation, although considerably lower than in the early 1980s, is a matter of serious concern in some countries and requires continued vigilance. External imbalances have been reduced in the United States and Japan, whereas in other cases they have increased. Continuing adjustment remains a priority in order to counter protectionist pressures, alleviate uncertainties in financial and exchange markets, and contribute to avoiding pressures on interest rates. Sound domestic macroeconomic policies, which may differ according to conditions in each country, will make a major contribution to further external adjustment.

6. In the developing world, the experience of the late 1980s varied widely. Some economies, particularly in East Asia, continued to experience impressive domestic growth rates. The economies of a number of other developing countries have been stagnant or declined. Nonetheless, serious efforts — in some cases by new leadership — to implement economic adjustment and market-oriented policies have begun to yield positive results and should be continued.

International Monetary Developments and Policy Coordination

7. At a time of growing economic interdependence, the Summit countries have developed a cooperative process based on a common appreciation of the need for market-oriented policies and the importance of sound domestic budgetary and monetary policies. This process has contributed importantly to the strengthened performance of the world economy and to improved stability of exchange rates by concentrating attention on multilateral surveillance and close coordination of economic policies, including cooperation on exchange markets. It is important to continue and, where appropriate, to strengthen this cooperative and flexible approach to improve the functioning of the

international monetary system and contribute to its stability.

8. To sustain the present economic expansion to the benefit of all countries, each nation must pursue sound policies. Balanced expansion of demand with increasing productive capacity is key, while external imbalances and structural rigidities require correction. Price pressures warrant continued vigilance.

9. Countries with sizable current account deficits should contribute to the adjustment process by the reduction of fiscal deficits, and undertake structural reforms to encourage private saving and increase competitiveness.

10. Countries with large external surpluses should contribute to the adjustment process by sustained non-inflationary growth of domestic demand with structural reform in order to improve the underlying conditions for growth and adjustment and to promote increased investment relative to saving.

11. The investment needs of the world as a whole are expected to grow in the coming years, particularly in Central and Eastern Europe and in developing countries undertaking market reforms, as well as in some industrial countries. To meet these needs, industrial and developing countries alike should foster saving and discourage dissaving.

12. The market-oriented restructuring of Central and Eastern European economies should stimulate their growth and increase their integration into the global economy. We support these changes and seek to assure that this difficult transformation will contribute to global growth and stability.

13. Within the European Community, the European Monetary System is leading to a high degree of economic convergence and stability. We note the European Community's decision to launch the Intergovernmental Conference on Economic and Monetary Union and the beginning of the first stage of that union. During this first stage, closer surveillance and coordination of economic and monetary policies will contribute toward non-inflationary growth and a more robust international economic system.

14. We welcome the prospect of a unified, democratic Germany which enjoys full sovereignty without discriminatory constraints.

German economic, monetary, and social union will contribute to improved non-inflationary global growth and to a reduction of external imbalances. This process will promote positive economic developments in Central and Eastern Europe.

15. We call on the member countries of the International Monetary Fund (IMF) to implement the agreement by the IMF to increase quotas by 50 percent under the Ninth General Review of Quotas and to strengthen the IMF arrears strategy.

Measures Aimed at Economic Efficiency

16. Considerable progress has been made over the past few years in supplementing macroeconomic policies with reforms to increase economic efficiency. We welcome the progress in the realization of the internal market in the European Community and the continuing efforts to reduce structural rigidities in North America and Japan. Nonetheless, we emphasize the widespread need for further steps to promote regulatory reform and liberalize areas such as retail trade, telecommunications, transport, labor markets, and financial markets, as well as to reduce industrial and agricultural subsidies, improve tax systems, and improve labor-force skills through education and training.

17. We welcome the major contributions of the Organization for Economic Cooperation and Development (OECD) in identifying structural policy challenges and options. We encourage the OECD to strengthen its surveillance and review procedures, and to find ways of making its work operationally more effective.

The International Trading System

18. The open world trading system is vital to economic prosperity. A strengthened General Agreement on Tariffs and Trade (GATT) is essential to provide a stable framework for the expansion of trade and the fuller integration of Central and Eastern Europe and developing countries into the global economy. We reject protectionism in all its forms.

19. The successful outcome of the Uruguay Round has the highest priority on the international economic agenda. Consequently, we stress our determination to take the difficult political decisions necessary to achieve far-reaching, substantial results in all areas of

the Uruguay Round by the end of this year. We instruct our negotiators to make progress and in particular to agree on the complete profile of the final package by the July meeting of the Trade Negotiations Committee.

20. We confirm our strong support for the essential broad objectives of the negotiations: reform of agricultural policies; a substantial and balanced package of measures to improve market access; strengthened multilateral rules and disciplines; the incorporation of new issues of services, trade-related investment measures, and intellectual property protection within the GATT framework; and integration of developing countries into the international trading system.

21. As regards agriculture, achieving the long-term objective of the reform of agricultural policies is critical to permit the greater liberalization of trade in agricultural products. Experience has shown the high cost of agricultural policies which tend to create surpluses. The outcome of the GATT negotiations on agriculture should lead to a better balance between supply and demand and ensure that agricultural policies do not impede the effective functioning of international markets. We therefore reaffirm our commitment to the long-term objective of the reform, i.e., to allow market signals to influence agriculture production and to establish a fair and market-oriented agricultural trading system.

22. The achievement of this objective requires each of us to make substantial, progressive reductions in support and protection of agriculture — covering internal regimes, market access, and export subsidies — and develop rules governing sanitary and phytosanitary measures. Variations among countries in the mechanisms of agricultural support reflect differences in the social and economic conditions of farming. The negotiations on agriculture should therefore be conducted in a framework that includes a common instrument of measurement, provides for commitments to be made in an equitable way among all countries, and takes into account concerns about food security. The framework should contain specific assurances that, by appropriate use of the common measure as well as other ways, participants would reduce not only internal support but also export subsidies and import protection in a related way.

23. Agreement on such a framework by the time of the July meeting of the Trade Negotiations Committee is critical to the successful completion of the Uruguay Round as a whole. Accordingly, we commend to our negotiators the text submitted by the Chairman of the Agricultural Negotiating Group as a means to intensify the negotiations. We intend to maintain a high level of personal involvement and to exercise the political leadership necessary to ensure the successful outcome of these negotiations.

24. Negotiations on market access should achieve agreement on a substantial and balanced package of measures. As regards textiles, the objective is to liberalize the textile and clothing sector through progressive dismantling of trade barriers and its integration, under a precise timetable, into GATT on the basis of strengthened GATT rules and disciplines.

25. Negotiations on multilateral rules and disciplines should strengthen GATT rules in areas such as safeguards, balance of payments, rules of origin, and updated disciplines for dumping and antidumping measures. Concerning subsidies, rules are needed which will effectively discipline domestic subsidies so as to avoid trade distortions, competitive subsidization, and trade conflicts. Improved disciplines must also cover countervailing measures so that they do not become barriers to trade.

26. As regards the new areas, the aim is to develop new rules and procedures within the GATT framework, including: a framework of contractually enforceable rules to liberalize services trade, with no sector excluded *a priori*; an agreement to reduce trade-distorting effects of trade-related investment measures; and an agreement to provide for standards and effective enforcement of all intellectual property rights.

27. A successful Uruguay Round is essential for industrialized and developing countries alike. We seek the widest possible participation of developing countries in the Round and their further integration into the multilateral trading system. To achieve this objective, developed countries are prepared to accept greater multilateral disciplines in all areas and to offer improved market access in areas of interest to developing countries such as textiles and clothing, tropical products, and agriculture.

28. For their part, developing countries should substantially reduce their tariffs and increase the percentage of tariffs that are bound; subscribe to balanced and effective restraints on all forms of exceptions, including measures imposed for balance-of-payments difficulties; and participate meaningfully in agreements covering the new areas. The end result should be a single set of multilateral rules applicable to all GATT contracting parties, although some developing countries, especially the least developed, may need longer transition periods or other transitional arrangements on a case by case basis.

29. The wide range of substantive results which we seek in all these areas will call for a commitment to strengthen further the institutional framework of the multilateral trading system. In that context, the concept of an international trade organization should be addressed at the conclusion of the Uruguay Round. We also need to improve the dispute settlement process in order to implement the results of the negotiations effectively. This should lead to a commitment to operate only under the multilateral rules.

Direct Investment

30. Free flows of investment increase global prosperity by complementing the open international trade system. In particular, foreign direct investment can help restructure the economies of developing and Central and Eastern European countries, create new jobs, and raise living standards.

31. All countries should therefore seek to reduce their barriers to investment and resist protectionist pressures to discourage or discriminate against such investment. The OECD and the GATT should continue to promote investment liberalization. The multilateral development banks and the IMF should require investment liberalization in their programs in Central and Eastern Europe and developing countries.

Export Credits

32. We welcome the important negotiations that are underway in the OECD on a balanced package of measures to strengthen multilateral disciplines on trade- and aid-distorting export credit subsidies. This package, to be completed by spring of 1991, should reduce substantially, through improved dis-

cipline and transparency, distortions resulting from the use of officially supported commercial and aid credits. It is also important to avoid introducing trade distortions in financial flows to the nations of Central and Eastern Europe.

Reform in Central and Eastern Europe

33. We welcome the political and economic reforms taking place in Central and Eastern Europe. At the recent Conference on Security and Cooperation in Europe (CSCE) in Bonn and by the agreement to establish the European Bank for Reconstruction and Development (EBRD), the participating countries of the region accepted the key principles underpinning market economies. However, the degree of implementation of economic and political reform varies widely by country. Several countries have taken courageous and difficult measures to stabilize their economies and shorten the transition to a market economy.

34. We and other countries should assist Central and Eastern European nations that are firmly committed to economic and political reform. Those providing help should favor countries that implement such reforms.

35. Foreign private investment will be vital in the development of Central and Eastern Europe. Capital will flow to countries with open markets and hospitable investment climates. Improved access for their exports will also be important for those Central and Eastern European countries that are opening up their economies. Western Governments can support this process by various means, including trade and investment agreements. The recent decision by the Coordinating Committee for Multilateral Export Controls (COCOM) to liberalize export controls is a positive step.

36. We commend the work done by the Commission of the European Communities on the coordination by the Group of 24 (G-24) of assistance to Poland and Hungary inaugurated at the Summit of the Arch, which has made a significant contribution to helping these countries lay the foundation for self-sustaining growth based on market principles. We welcome the decision of the G-24 to enlarge the coordination of assistance to other emerging democracies in Central and Eastern Europe, including Yugoslavia.

37. We recognize that these countries face major problems in cleaning their environment. It will be important to assist the countries of Central and Eastern Europe to develop the necessary policies and infrastructure to confront those environmental problems.

38. We also welcome the recent initiatives in regional cooperation, e.g., in transport and the environment, that will make a positive contribution to economic progress and stability in the region.

39. We expect the new EBRD to play a key role in fostering investment in those countries and to contribute to orderly transitions toward market economies and a sound basis for democracy. We urge the rapid entry into force of the Bank.

40. The Center for Cooperation with European Economies in Transition at the OECD will encourage reforms and strengthen relations between these countries and the OECD, as will the OECD's follow up work from the CSCE Economic Conference in Bonn.

41. We invite the OECD to consider a closer relationship with those Central and East European countries that are committed to political and economic reform.

The Soviet Union

42. We discussed the situation in the Soviet Union, and exchanged views regarding the message that Soviet President Gorbachev sent us several days ago on his economic plans. We welcome the efforts underway in the Soviet Union to liberalize and to create a more open, democratic, and pluralistic Soviet society, and to move toward a market-oriented economy. These measures deserve our support. The success of perestroika depends upon the determined pursuit and development of these reform efforts. In particular, we welcome President Gorbachev's suggestion for a sustained economic dialogue.

43. We have all begun, individually and collectively, to assist these reform efforts. We all believe that technical assistance should be provided now to help the Soviet Union move to a market-oriented economy and to mobilize its own resources. Some countries are already in a position to extend large scale financial credits.

44. We also agreed that further Soviet decisions to introduce more radical steps toward a market-oriented economy, to shift resources substantially away from the military sector and to cut support to nations promoting regional conflict will all improve the prospect for meaningful and sustained economic assistance.

45. We have taken note of the decision of the European Council in Dublin on June 26. We have agreed to ask the IMF, the World Bank, the OECD and the designated president of the EBRD to undertake, in close consultation with the Commission of the European Communities, a detailed study of the Soviet economy, to make recommendations for its reform and to establish the criteria under which Western economic assistance could effectively support these reforms. This work should be completed by year's end and be convened by the IMF.

46. We took note of the importance to the Government of Japan of the peaceful resolution of its dispute with the Soviet Union over the Northern Territories.

47. The host Government will convey to the Soviet Union the results of the Houston Summit.

The Developing Nations

48. We reiterate that our commitment to the developing world will not be weakened by the support for reforming countries in Central and Eastern Europe. The poorest of the developing nations must remain the focus of special attention. The International Development Association replenishment of SDR 11.6 billion, agreed to last December, will provide needed resources for these countries, and marks the incorporation of environmental concerns into development lending. It is our intention to take a constructive part in the Paris conference on the least developed countries in September.

49. The advanced industrial economies can make a number of major contributions to the long-run development of the developing countries. By sustaining economic growth and price stability, we can offer stable, growing markets and sources of capital for the developing world. By providing financial and technical support to developing countries undertaking genuine political and economic reform, we can reinforce their ongoing liberalization. The industrialized nations

should continue to make efforts to enhance their development aid and other forms of assistance to the developing countries, including reinforcing the effectiveness of the aid.

50. In the developing world, there is a growing acceptance of the view that growth can be encouraged by a stable macroeconomic framework, sectoral reform to provide more competition, and an opening of markets. Open, democratic, and accountable political systems are important ingredients in the effective and equitable operation of market-oriented economies.

51. Important contributions to a hospitable investment climate can be made by the protection of intellectual property, and by liberalization of investment regimes, including transparent and equitable investment rules, and equality of treatment for foreign and domestic investors.

52. The recent Enterprise for the Americas initiative announced by the U.S. President will support and encourage more market-oriented policies in Latin America and the Caribbean. We believe that such U.S. efforts hold great promise for the region and will help improve prospects for sustained growth in the Americas through the encouragement of trade, open investment regimes, the reduction of U.S. bilateral concessional debt and the use of debt for equity and nature swaps.

53. In a number of countries, sustainable development requires that population growth remains in some reasonable balance with expanding resources. Supporting the efforts of developing countries to maintain this balance is a priority. Improved educational opportunities for women and their greater integration into the economy can make important contributions to population stabilization programs.

54. In the Mediterranean basin, the initiatives of economic integration, which are underway, deserve encouragement and support.

Third World Debt

55. Significant progress has been made during the past year under the strengthened debt strategy, which has renewed the resolve in a number of debtor countries to continue economic reforms essential to future growth. In particular, the recent commercial bank agreements with Chile, Costa Rica, Mexico, Morocco, the Philippines, and Vene-

zuela involve significant debt and debt-service reduction. Important financial support for debt and debt-service reduction is being provided by the IMF and the World Bank, as well as by Japan. The Paris Club has agreed, in order to support medium term IMF-supported reform and financing programs, to provide adequate restructuring agreements, notably through multiyear reschedulings and through lengthening of the repayment period. The combination of debtor reform efforts and commercial bank debt reduction has had a notable impact on confidence in debtor economies, as clearly demonstrated through flows of both new investment and the return of flight capital to Mexico, in particular.

56. These measures represent major innovations in the case by case debt strategy and are potentially available to all debtor nations with serious debt-servicing problems which are implementing economic adjustment policies.

57. The adoption by debtor nations of strong economic reform programs with the IMF and World Bank remains at the heart of the debt strategy, and a prerequisite for debt and debt-service reduction within commercial bank financing packages. It is vital that debtor countries adopt measures to mobilize savings and to encourage new investment flows and the repatriation of flight capital to help sustain their recovery. In this connection, the recent U.S. Enterprise for the Americas initiative to support investment reform and the environment in Latin America needs to be given careful consideration by Finance Ministers.

58. For countries implementing courageous reforms, commercial banks should take realistic and constructive approaches in their negotiations to conclude promptly agreements on financial packages including debt reduction, debt-service reduction and new money.

59. Creditor nations will continue to play an important role in this process through ongoing contributions to the international financial institutions, rescheduling of official debt in the Paris Club, and new finance. We encourage the Paris Club to continue reviewing additional options to address debt burdens. In the case of the lower middle-income countries implementing strong reform programs, we encourage the Paris Club to lengthen the repayment period,

taking account of the special situations of these countries. We welcome the decisions taken by France with respect to Sub-Saharan Africa and by Canada with respect to the Caribbean to alleviate the debt burden of the lower middle-income countries.

60. Creditor governments have also provided special support for the poorest countries through the implementation of Toronto terms in Paris Club reschedulings. All of us have cancelled official development assistance (ODA) debt for the poorest countries. We encourage the Paris Club to review the implementation of the existing options that apply to the poorest countries.

61. We note and will study with interest the Craxi Report on debt commissioned by the UN Secretary General.

• The Environment

62. One of our most important responsibilities is to pass on to future generations an environment whose health, beauty, and economic potential are not threatened. Environmental challenges such as climate change, ozone depletion, deforestation, marine pollution, and loss of biological diversity require closer and more effective international cooperation and concrete action. We as industrialized countries have an obligation to be leaders in meeting these challenges. We agree that, in the face of threats of irreversible environmental damage, lack of full scientific certainty is no excuse to postpone actions which are justified in their own right. We recognize that strong, growing, market-oriented economies provide the best means for successful environmental protection.

63. Climate change is of key importance. We are committed to undertake common efforts to limit emissions of greenhouse gases, such as carbon dioxide. We strongly support the work of the Intergovernmental Panel on Climate Change (IPCC) and look forward to the release of its full report in August. The Second World Climate Conference provides the opportunity for all countries to consider the adoption of strategies and measures for limiting or stabilizing greenhouse gas emissions, and to discuss an effective international response. We reiterate our support for the negotiation of a framework convention on climate change, under the auspices of the United Nations Environment Program (UNEP) and the World Meteorological Orga-

nization (WMO). The convention should be completed by 1992. Work on appropriate implementing protocols should be undertaken as expeditiously as possible and should consider all sources and sinks.

64. We welcome the amendment of the Montreal Protocol to phase out the use of chlorofluorocarbons (CFCs) by the year 2000 and to extend coverage of the Protocol to other ozone-depleting substances. The establishment of a financial mechanism to assist developing countries to tackle ozone depletion marks a new and positive step in cooperation between the developed and developing worlds. We applaud the announcement in London by some major developing countries, including India and China, that they intend to review their position on adherence to the Montreal Protocol and its amendments. We would welcome their adherence as a crucial reinforcement of the effectiveness of the Protocol, which would ultimately lead to a worldwide phase out of ozone-depleting substances. We urge all parties to ratify the amended Protocol as quickly as possible.

65. We acknowledge that enhanced levels of cooperation will be necessary with regard to the science and impacts of climate change and economic implications of possible response strategies. We recognize the importance of working together to develop new technologies and methods over the coming decades to complement energy conservation and other measures to reduce carbon dioxide and other greenhouse emissions. We support accelerated scientific and economic research and analysis on the dynamics and potential impact of climate change, and on potential responses of developed and developing countries.

66. We are determined to take action to increase forests, while protecting existing ones and recognizing the sovereign rights of all countries to make use of their natural resources. The destruction of tropical forests has reached alarming proportions. We welcome the commitment of the new Government of Brazil to help arrest this destruction and to provide sustainable forest management. We actively support this process, and we are ready for a new dialogue with developing countries on ways and means to support their efforts. We are ready to cooperate with the Government of Brazil on a comprehensive pilot program to counteract the

threat to tropical rain forests in that country. We ask the World Bank to prepare such a proposal, in close cooperation with the Commission of the European Communities, which should be presented at the latest at the next Economic Summit. We appeal to the other concerned countries to join us in this effort. Experience gained in this pilot program should immediately be shared with other countries faced with tropical forest destruction. The Tropical Forestry Action Plan must be reformed and strengthened, placing more emphasis on forest conservation and protection of biological diversity. The International Tropical Timber Organization action plan must be enhanced to emphasize sustainable forest management and improve market operations.

67. We are ready to begin negotiations, in the appropriate fora, as expeditiously as possible on a global forest convention or agreement, which is needed to curb deforestation, protect biodiversity, stimulate positive forestry actions, and address threats to the world's forests. The convention or agreement should be completed as soon as possible, but no later than 1992. The work of the IPCC and others should be taken into account.

68. The destruction of ecologically sensitive areas around the world continues at an alarming pace. Loss of temperate and tropical forests, developmental pressures on estuaries, wetlands and coral reefs, and destruction of biological diversity are symptomatic. To reverse this trend, we will expand cooperation to combat desertification; expand projects to conserve biological diversity; protect the Antarctic; and assist developing countries in their environmental efforts. We will work within UNEP and other fora to achieve these objectives, and will participate actively in UNEP's work to protect biodiversity.

69. Efforts to protect the environment do not stop at the water's edge. Serious problems are caused by marine pollution, both in the oceans and in coastal areas. A comprehensive strategy should be developed to address land-based sources of pollution; we are committed to helping in this regard. We will continue our efforts to avoid oil spills, urge the early entry into force of the existing International Maritime Organization (IMO) Convention, and welcome the work of that organization in developing an interna-

tional oil spills convention. We are concerned about the impact of environmental degradation and unregulated fishing practices on living marine resources. We support cooperation in the conservation of living marine resources and recognize the importance of regional fisheries organizations in this respect. We call on all concerned countries to respect the conservation regimes.

70. To cope with energy-related environmental damage, priority must be given to improvements in energy efficiency and to the development of alternative energy sources. For the countries that make such a choice, nuclear energy will continue to be an important contributor to our energy supply and can play a significant role in reducing the growth of greenhouse gas emissions. Countries should continue efforts to ensure highest worldwide performance standards for nuclear and other energy in order to protect health and the environment, and ensure the highest safety.

71. Cooperation between developed and developing countries is essential to the resolution of global environmental problems. In this regard, the 1992 UN Conference on Environment and Development will be an important opportunity to develop widespread agreement on common action and coordinated plans. We note with interest the conclusions of the Siena Forum on International Law of the Environment and suggest that these should be considered by the 1992 UN Conference on Environment and Development.

72. We recognize that developing countries will benefit from increased financial and technological assistance to help them resolve environmental problems, which are aggravated by poverty and underdevelopment. Multilateral development bank programs should be strengthened to provide greater protection for the environment, including environmental impact assessments and action plans, and to promote energy efficiency. We recognize that debt-for-nature swaps can play a useful role in protecting the environment. We will examine how the World Bank can provide a coordinating role for measures to promote environmental protection.

73. In order to integrate successfully environmental and economic goals, decision-makers in government and industry require

the necessary tools. Expanded cooperative scientific and economic research and analysis on the environment is needed. We recognize the importance of coordinating and the sharing the collection of satellite data on earth and its atmosphere. We welcome and encourage the ongoing discussions for the establishment of an International Network. It is also important to involve the private sector, which has a key role in developing solutions to environmental problems. We encourage the OECD to accelerate its very useful work on environment and the economy. Of particular importance are the early development of environmental indicators and the design of market-oriented approaches that can be used to achieve environmental objectives. We also welcome Canada's offer to host in 1991 an international conference on environmental information in the 21st Century. We support voluntary environmental labelling as a useful market mechanism which satisfies consumer demand and producer requirements and promotes market innovation.

74. We note with satisfaction the successful launching of the Human Frontier Science Program and express our hope that it will make positive contributions to the advancement of basic research in life science for the benefit of all mankind.

Narcotics

75. We urge all nations to accede to and complete ratification of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), and to apply provisionally terms of the Convention.

76. We welcome the conclusion of the UN Special Session on Drugs and urge the implementation of the measures contained in the Program of Action it has adopted.

77. We support the declaration adopted at the ministerial meeting on drugs convened by the United Kingdom that drug demand reduction should be accorded the same importance in policy and action as the reduction of illicit supply. Developed countries should adopt stronger prevention efforts and assist demand reduction initiatives in other countries.

78. We endorse the report of the Financial Action Task Force (FATF) and commit our countries to a full implementation of all its recommendations without delay. As agreed

at the May meeting of Task Force Finance Ministers, the FATF should be reconvened for a second year, chaired by France, to assess and facilitate the implementation of these recommendations, and to complement them where appropriate. All OECD and financial center countries that subscribe to the recommendations of the Task Force should be invited to participate in this exercise. The report of the new FATF would be completed before we next meet. We also invite all other countries to participate in the fight against money laundering and to implement the recommendations of the FATF.

79. Effective procedures should be adopted to ensure that precursor and essential chemicals are not diverted to manufacture illicit drugs. A task force similar to the FATF should be created for this purpose, composed of Summit participants and other countries that trade in these chemicals, with the involvement of representatives of the chemical industry. The task force should address the problems which concern cocaine, heroin and synthetic drugs and report within a year.

80. We support a strategy for attacking the cocaine trade as outlined in particular in the Cartagena Declaration. We recognize the importance of supporting all countries strongly engaged in the fight against drug trafficking, especially Colombia, Peru, and Bolivia, with economic, law enforcement, and other assistance and advice, recognizing the need to make contributions within the framework of actions against drug trafficking carried out by the producer countries.

81. The heroin problem is still the most serious threat in many countries, both developed and developing. All countries should take vigorous measures to combat the scourge of heroin.

82. We should support an informal narcotics consultative arrangement with developed countries active in international narcotics control. Such a group could strengthen efforts to reduce supply and demand, and improve international cooperation.

83. We welcome the current review of UN drug abuse control agencies and urge that it result in a more efficient structure.

Next Economic Summit

84. We have accepted the invitation of Prime Minister Thatcher to meet next July in London.

Political Declaration July 10, 1990

Securing Democracy

1. We, the Leaders of our seven countries and the Representatives of the European Community, salute the men and women around the world whose courage and wisdom have inspired and brought about the historic advances of democracy we have witnessed over the past year. As we enter the final decade of this century, which we intend should be a Decade of Democracy, we reiterate our commitment to support the strengthening of democracy, human rights, and economic reconstruction and development through market-oriented economies. We emphasize the important opportunity provided in this forum for representatives from Europe, Japan, and North America to discuss critical challenges of the coming years.

2. Europe is at the dawn of a new era. We welcome enthusiastically the profound and historic changes sweeping the continent. The London Declaration on a Transformed North Atlantic Alliance provides a new basis for cooperation among former adversaries in building a stable, secure, and peaceful Europe. We are determined to seize all opportunities to achieve a Europe whole and free and recognize the European Community's contribution to that effort. We applaud the unification of Germany, which is a tangible expression of mankind's inalienable right to self-determination and a major contribution to stability in Europe.

We welcome the replacement of repressive regimes in Central and Eastern Europe by governments freely chosen by their peoples. We applaud the introduction of the rule of law and the freedoms that are the bedrock of a democratic state. We urge Romania, following recent events, to adhere to the positive trend taking place in other countries of Central and Eastern Europe.

3. We welcome the intention of the Soviet Union to move toward a democratic political system, as well as Soviet attempts to reform their economy along market principles. We commit ourselves to working with the Soviet Union to assist its efforts to create an open society, a pluralistic democracy, and a market-oriented economy. Such changes will enable the Soviet Union to fulfill its responsibilities in the community of nations

founded on these principles. We are heartened by indications that a constructive dialogue is underway between the Soviet government and the Baltic states, and we urge all sides to continue this dialogue in a democratic spirit.

4. The advance of democracy accompanied by market-oriented economic reforms is not just a European phenomenon. Since we last met, we have witnessed the spread of democratic values in many parts of the world.

In Asia, there are encouraging signs of new political openness in Mongolia and Nepal. In the Philippines, the government continues to engage in courageous efforts to consolidate democracy.

We acknowledge some of the recent developments in China, but believe that the prospects for closer cooperation will be enhanced by renewed political and economic reform, particularly in the field of human rights. We agree to maintain the measures put into place at last year's Summit, as modified over the course of this year. We will keep them under review for future adjustments to respond to further positive developments in China. For example, in addition to existing lending to meet basic human needs, we will explore whether there are other World Bank loans that would contribute to reform of the Chinese economy, especially loans that would address environmental concerns.

5. In Africa, we hope that Namibia's attainment of independence and democracy will be a positive example for freedom, pluralism, and market-oriented economic reform throughout the continent. We also welcome the positive developments that have taken place in South Africa, especially the launching of talks between the government and representatives of the black majority. We hope this will lead to a peaceful transition to a non-racial democracy and the complete dismantlement of the apartheid system. We will continue to support this process and we call on all parties to refrain from violence or its advocacy.

6. In Latin America, we welcome the re-establishment of freedom and democracy in Chile. We applaud the recent fair and free elections in Nicaragua, as well as progress on the path to peace through dialogue in El Salvador and Guatemala. We encourage the efforts of the Panamanian government to re-

establish democracy and the rule of law. We note with satisfaction the positive evolution in Haiti. We hope that Cuba will take steps to join the democratic trend in the rest of Latin America.

7. While we applaud the reduction of ideological conflicts that have divided much of the world since the end of the Second World War, we note with deep concern the reemergence of intolerance affecting ethnic and religious groups. We agree that such intolerance can lead to conflicts, which can threaten fundamental human rights, as well as political and economic development.

8. We reaffirm our commitment to the fundamental principles we seek to realize in our own societies, and we underscore that political and economic freedoms are closely linked and mutually reinforcing. Each of us stands ready to help in practical ways those countries that choose freedom, through the provision of constitutional, legal, and economic know-how and through economic assistance, as appropriate.

In drawing from our different constitutional and historical experiences, we stand ready, individually and jointly in relevant fora, to:

- assist in the drafting of laws, including bills of rights and civil, criminal, and economic framework laws;
- advise in the fostering of independent media;
- establish training programs in government, management, and technical fields;
- develop and expand people-to-people contacts and exchange programs to help diffuse understanding and knowledge.

In the same spirit, the recent G-24 Ministerial agreed to extend its assistance in Central and Eastern Europe in parallel with progress in political and economic reform.

We agree the challenge facing the industrialized democracies is to continue the effort already underway in Europe while expanding efforts to support political reform and economic development in other parts of the world. We call on our people and the people of other democracies to join in this great endeavor.

Chairman's Statement July 10, 1990

The Political Declaration released today celebrates the historic advance of democracy since the Seven met last summer in Paris. In the Declaration, we reiterate our support for the peaceful democratic movement that is bringing freedom to Central and Eastern Europe and uniting Germany. But the great events in Europe should not lead us to overlook other opportunities and other needs.

During our discussion, we cited Namibia as a positive model for democratic evolution elsewhere on the African continent. Most of the leaders here have met recently with Nelson Mandela and some with South African President de Klerk. We believe the focus of our efforts should be on encouraging negotiations to bring about a non-racial democracy in South Africa.

In Central and South America, we welcome the return of democracy to Chile and Panama and free and fair elections in Nicaragua. And the winds of freedom have not bypassed Asia, where we are witnessing important changes taking place in Nepal and Mongolia.

We acknowledge some recent actions taken by the Chinese government, but for now the measures put in place at last year's Summit remain. We will explore, however, whether there are World Bank loans that would contribute to reform of the Chinese economy, especially to meet environmental concerns.

We also devoted considerable discussion to the evolution of events in the Soviet Union and how a reforming Soviet Union can play an important role in addressing both old and new challenges facing the international community. President Bush will review that discussion for you in more detail tomorrow.

The Declaration closes by suggesting actions Western nations can take to help secure and promote democracy's advance in all regions of the world. The Declaration notes that political freedom and economic liberty are mutually reinforcing and cannot flourish in an environment of intolerance.

A separate statement was issued on the transnational problems of terrorism and the proliferation of nuclear, chemical, and biological weapons, as well as ballistic missiles. These dangers, like the illicit trade in narcotics

that will be addressed in tomorrow's Communiqué, know no boundaries. In the case of nuclear proliferation, the deliberations here take on added significance in this 20th anniversary year of the Nuclear Non-Proliferation Treaty.

In addition to the topics covered in the documents released today, regional conflicts were discussed. We recognize each conflict's unique nature and the responsibility of the parties on the ground to take the lead in seeking negotiated solutions. We believe, however, that free and fair elections have a key role in bringing peace to these regions. In Afghanistan, Cambodia, and Angola, we want to see negotiated settlements providing for ceasefires, arms cutoffs, and transition periods supported by the UN and regional organizations, all leading to free elections.

We discussed the current situation in the Middle East and, although different approaches were raised, we all agreed on the need for movement in the peace process. We expressed the hope that the cycle of violence and repression would give way to early dialogue between Israel and Palestinians that will lead to free, democratic elections and negotiations.

Regarding the human tragedy in the Horn of Africa, we discussed, among other actions being taken, the recent agreement between the United States and the Soviet Union to launch a joint effort to deal with starvation and conflict in Ethiopia.

We also noted with particular concern developments related to Kashmir. These events threaten regional stability, and could imperil the growth of political and economic freedoms in two democracies, India and Pakistan. We are encouraged by recent moves toward dialogue between the two countries and agreed to use all means at our disposal to encourage and support this process.

We expressed our concern that the Asia and Pacific region has yet to see the same process of conciliation, military disengagement, and reduction of tensions that has characterized East-West relations in Europe. In this regard, we support the early resolution of the Northern Territories issue as an essential step leading to the normalization of Japanese-Soviet relations. The Korean peninsula remains an area of sharp concern, especially because the North has yet to sign and imple-

ment a nuclear safeguards agreement. We welcome the recent talks between North and South Korea and hope they mark a turning point in inter-Korean relations.

In sum, the Summit partners share the imperative of our time: to help promote and secure democracy around the world. We are committed to turn the hopes of today into the solid achievements of tomorrow.

Statement on Transnational Issues July 10, 1990

Terrorism

We, the Heads of State or Government, reaffirm our condemnation of terrorism in all its forms, our commitment to make no concessions to terrorists or their sponsors, and our resolve to continue to cooperate in efforts to combat terrorism. We demand that those governments which provide support to terrorists end such support immediately. We are determined not to allow terrorists to remain unpunished, but to see them brought to justice in accordance with international law and national legislation.

We welcome the recent release of several hostages, but remain deeply concerned that hostages are still being held, some for more than five years. Their ordeal and that of their families must end. We call for the immediate, unconditional and safe release of all hostages and for an accounting of all persons taken hostage who may have died while being held. We call on those with influence over hostage-takers to use their influence to this end.

We note with deep concern the continuing threat presented to civil aviation by terrorist groups, as demonstrated by such outrages as the sabotage of civil aircraft over Lockerbie, Scotland on December 21, 1988, above Niger on September 19, 1989, and over Colombia on November 27, 1989. We reiterate our determination to fight terrorist assaults against civil aviation.

Accordingly, we will continue our cooperation to negotiate a convention requiring the introduction of additives into plastic explosives to aid in their detection. We pledge to work to strengthen international civil aviation security standards. Consistent with this objective, we note the importance of making

available training and technical assistance to other nations. We support initiatives undertaken through the International Civil Aviation Organization (ICAO) regarding this issue. We will work together with ICAO to expand such assistance.

Non-Proliferation

We discussed the threat to international security posed by the proliferation of nuclear, chemical and biological weapons, and of ballistic missile weapons delivery systems.

With regard to nuclear proliferation, we take special note of the recent declaration issued by the European Council in Dublin on that subject. That document underscored the great importance attached to the maintenance of an effective international nuclear non-proliferation regime and the need to make every effort to contribute to strengthening non-proliferation and encouraging the participation of further countries in the regime. The Treaty on Non-Proliferation of Nuclear Weapons (NPT) is an important element of that regime. We further endorse the EC's call for all states to apply IAEA safeguards on as universal a basis as possible.

We also urge all nuclear suppliers to adopt nuclear export control measures equivalent to the Nuclear Suppliers Group Guidelines.

Whether NPT parties or not, we commit ourselves to working actively to secure a satisfactory outcome to nuclear non-proliferation discussions in the forthcoming months, including those at the Fourth Review Conference of the NPT.

We hope that these discussions will contribute to the achievement of as broad a consensus as possible in favor of an equitable and stable non-proliferation regime. Such a regime should be based on an indispensable balance between the non-proliferation of arms and the development of peaceful and safe uses of nuclear energy.

The global community has focussed for decades on nuclear proliferation, especially

when combined with advanced missile delivery systems. Today we also face new and growing problems from the proliferation of chemical and biological weapons.

With regard to chemical and biological proliferation, we commit ourselves to pursue efforts to prevent the diversion of chemical precursors at a national level, as well as in the relevant Western fora. We similarly commit ourselves to be vigilant about the danger of potential diversions in the field of biological technologies.

We endorse a complete ban on chemical weapons, through an effective and verifiable treaty, as the only long-term guarantee against the proliferation of chemical weapons. We believe an important step toward achieving such a treaty was made in the recent U.S.-Soviet agreement on destruction and non-production of chemical weapons and the recent declaration of intent by NATO states to become original signatories to the Chemical Weapons Convention. We reiterate our determination, first expressed at the 1989 Paris Conference on Chemical Weapons, to redouble the effort at the Conference on Disarmament in Geneva to resolve the remaining issues and to conclude the Convention at the earliest date. We also urge all states to become parties as soon as it is concluded. Similarly, as the 1991 Review Conference on the Biological Weapons Convention approaches, we call on all nations that have not become party to the Convention to do so and to participate in confidence-building measures designed to strengthen its effectiveness.

We wish to highlight the importance of dealing with the related threat of ballistic missiles capable of delivering nuclear, chemical and biological weapons. We note especially the contribution of the Missile Technology Control Regime (MTCR) to our joint efforts to control missile proliferation. We applaud the recent decisions of additional nations to adhere to the MTCR, and we call upon all nations to observe the MTCR Guidelines.

NOTES