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NOTES FOR A STATEMENT BY
THE HONOURABLE ALLAN J. MACEACHEN,
DEPUTY PRIME MINISTER AND
SECRETARY OF STATE FOR
EXTERNAL AFFAIRS,
AT THE OECD MINISTERIAL MEETING

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STATEMENT BY THE HONOURABLE A.J. MACEACHEN DEPUTY PRIME MINISTER AND SECRETARY OF STATE FOR EXTERNAL AFFAIRS OF CANADA

FINANCE, TRADE AND DEVELOPMENT

Mr. Chairman, I welcome this opportunity to look at the linkages between finance, trade and development in a global and medium term perspective. I am encouraged by the results of our collective efforts over the past two years not only to manage very serious strains but also to set the stage for resumed non-inflationary growth.

The signs of a continuing and broadening recovery are better than we had expected even a few months ago. Growth in world trade was renewed in 1983. The international financial system has continued to respond to the most pressing challenges on the debt front. Our success has been possible because we have been able to secure the close cooperation of the borrowing countries, OECD members, the commercial banks and the multilateral financial institutions. Looking to the future, there is every evidence to suggest that the rate of growth in OECD countries, which we said at Williamsburg would be necessary to generate recovery in the Third World is achievable and, in fact, is taking place.

Yet we are all aware of on-going difficulties. The turnaround in economic activity in industrialized countries is spreading to developing countries, but only slowly for most. New financial inflows are likely to be tightly constrained for some time yet. Protectionist pressures threaten the growth in world trade which we all seek. Real interest rates are still too high, and recent increases are extremely disquieting. Looking ahead, the recently released _IMF Outlook_ cautions that we may face very serious debt servicing strains in the heavily indebted countries for a number of years beginning as early as 1985. In short, strains on the financial resources of the developing countries in the next few years could have a serious impact on their own economic development, and exacerbate social and political tensions. This could have unwelcome implications for the international trade and financial system. Thus, while

Canada supports a case by case approach to deal with the debt situation, we are also of the view that greater attention should now be given to the prospects for medium and longer-term financial flows for developing countries, and to how our efforts can be directed to the stimulation of self-sustaining growth in all countries.

A priority task then is to look at the various sources of financing available, assess their potential role over the next few years and then consider ways in which we can enhance that role. Before I turn to external sources of finance, however, I would like to make two general points.

First, external financial flows must be kept in perspective when looking at the resources developing countries will need for economic development. This is simply to remind at the outset that in most instances by far the greater portion of financing must be met by domestic savings and investment generated within the developing countries themselves.

Second, if a number of developing countries are to regain the confidence of commercial lenders and foreign investors, they will need to implement effective macro-economic policies and undergo significant structural adjustments in their economies. The problem is that for many developing countries, adjustments can only take place over the longer term and, in many cases, only if adequate capital flows, both non-concessional and concessional, are forthcoming.

I would now like to turn my attention to four sources of external financing: commercial lending, direct investment, aid and trade.

Commercial Flows

While commercial flows have played a major role in the past in financing trade and development, the shocks over the past few years have made such lenders understandably more cautious. In response, the developed countries need to ensure that these flows are not unnecessarily constrained and developing countries will need to create, wherever possible, the environment which will enable them to tap longer-term commercial lending to a greater extent. Those countries which took difficult decisions early and adjusted and who have managed their economies well without building up excessive debt servicing loads have had better access to the capital they need. I would hope that they will continue to enjoy that access.

However, for those countries with already large foreign debts, access to additional borrowing likely will be much more difficult. For the heavily indebted countries, amortization payments are expected to be at worrisome levels relative to export earnings for several years after 1985. We have to begin now to ensure that such foreseeable developments do not precipitate new crises. The current case-by-case approach has worked well in responding to the particular circumstances of individual borrowers. However, further restructuring must be worked out to permit countries who have successfully undertaken major adjustment programs to return to normal relations with their private creditors as soon as possible. For those countries, it well might be desirable to encourage multi-year reschedulings. While we would want to ensure that we do not raise false expectations, we should give serious consideration to this and other suggestions coming from central and private bankers in recent days.

Direct Investment

As an alternative to increasing debt loads, there is scope for enhancing the role for direct investment to contribute to growth and to mitigate balance of payments problems in developing countries. As a major recipient of direct investment, Canada has long been an active supporter of a healthy international investment climate where multinational enterprises can make a positive contribution to the growth of developing countries. There is, however, need for greater clarification of the potential of direct investment as well as recognition of its limitations in order to understand how it can best complement the overall mix of resource transfer. We wish to pursue efforts in the OECD to better understand the economic and policy factors which would enhance the contribution that direct investment can make to developing countries. Such work should be done in a way that considers developing country sensitivities in this area and the balanced nature in the investment dialogue elsewhere. We particularly support the successful conclusion of negotiations at the U.N. on a Code of Conduct for Transnational Corporations. We also support the work program agreed to in the CIME. Further study could also usefully consider the implications of enhanced investment flows to developing countries for the industrial interests and trade policies of OECD countries.

Official Assistance

It is clear however that we cannot rely on the economic recovery and private markets alone to meet the reasonable needs of developing countries. There is a continuing and growing need for official development assistance, particularly for the poorest countries. In this connection, Canada has pledged to increase its own ODA to 0.7% of GNP by 1990. I believe that the World Bank Group in particular must be in a position to play a greater catalytic role in ensuring that there are sufficient resources for development. Yet over the past few years, we have encountered growing problems in providing the World Bank and the regional development banks with the minimum resources necessary for them to finance high priority development projects and to encourage structural adjustment. If we are to ask the World Bank to expand its dialogue with developing countries to effect necessary policy changes and to play a greater catalytic role we will have to provide the Bank with the political and financial support necessary to ensure that it can fulfill its mandate. We must not allow individual and bilateral differences to erode the capacity of the World Bank at this critical time. We need to approve the Selective Capital Increase and get on with starting work on a new General Capital Increase.

It is also essential to ensure that the very poorest and smallest countries, particularly those in Sub-Saharan Africa, with little or no access to private capital markets, have access to adequate concessional financing. For that reason, Canada is disappointed that all that could be negotiated in IDA 7 was a $9 billion replenishment. This will result in a major decline in IDA's programs in real terms and a significant erosion in its ability to influence the future growth of the poorest countries. Canada has indicated that, together with most major donors, it would be prepared to join in making a special effort to bring the total resources closer to $12 billion. Multilateral cooperation has been an essential element in virtually all areas of economic and non-economic growth in the past thirty years. We must not lose sight of this or of the fact that such cooperation, so laboriously built over a period of years, can be easily destroyed.

Canada also supports a discussion of the possible role which the World Bank might play in addressing more effectively medium-term financing. We need to explore more fully how to coordinate short-term balance of payments financing, medium-term structural adjustment support, and longer-term developmental assistance. While these issues are obviously related, solutions to the problems in each may be quite different, and touch upon institutional questions as to the respective roles of the IMF, World Bank, private financing and investment, and bilateral donors. I believe we need further clarification of what the needs are in the medium term, and how the World Bank in particular might be brought to bear more effectively in this area. In this context, consideration will need to be given to how the World Bank can engage more actively in a medium-term orientation to "match-up" with and complement the shorter-term IMF stabilization focus, without weakening the Bank's longer-term development mandate. It is obvious that close cooperation between the IMF and the World Bank will be critical in these efforts.

Trade

I will touch only briefly here on the inter-relationship between trade, development, and finance. Trade, and in particular access to industrialized country markets, has long been recognized as important for the economic development of developing countries. Perhaps only recently with the constraints of the debt situation, have the countries of this Organization begun to fully realize as well how important developing country markets are for their own growth. In the medium to long term, trade liberalization, e.g. in a possible new MTN round, can contribute both to the development process, and economic growth more generally, and security of market access can increase investment immediately. There has also been increased focus recently on the importance of open trading regimes, in both developed and developing countries, if needed structural adjustments are to be made, and if trade is to make its necessary contribution to overcoming the debt situation. Canada welcomes discussions in the OECD and elsewhere on how to make these various facets of our economic relations consistent and mutually supportive.

Before closing, Mr. Chairman, I wish to comment on two important policy areas touched on in the Secretary-General's Note: aid-trade financing, and improving the dialogue with developing countries.

Aid-Trade Financing

The Secretary-General's Note reflects a growing concern over the risk that ODA resources may be used increasingly for concessional export financing, in some cases, to the detriment of pursuing sound developmental objectives. I would like to emphasize that Canada shares this concern. Canada has consistently sought to improve transparency and discipline on all forms of concessional export financing within the Consensus on Export Credits and in the Guidelines on Associated Financing. Recently, we expressed our frustration over the fact that the current approaches to applying disciplines on the use of tied aid credits and other forms combining aid and trade credits have not succeeded. As a consequence, Canada indicated that it would be prepared to consider proposals to substantially increase the minimum permissible grant element under the Consensus, higher thresholds for prior notification, more extensive use of common lines and even bans on the use of mixed credits for specific sectors in an effort to ensure that tied aid credits have a developmental rather than a commercial motive. At the same time, we need to consider a higher minimum grant element for associated financing and for ODA. It will be essential, however, that any disciplines apply equally to all other financing practices of equivalent effect.

I recognize that the pressures to use aid financing to subsidize exports to developing countries are very great. The world market for capital goods exports is still weak, and with high unemployment levels in many of our countries, the demand from our exporters for increased mixed credit financing is rising. This demand becomes particularly intense whenever exporters learn that their competitors from other OECD countries may be benefiting from concesssional financing, often provided through the aid program. On the other hand, I also recognize that reasonable arguments can be made to show that where proper developmental considerations are taken into account, aid and trade can be combined to expand the developmental effect and to "stretch" the volume of concessional aid available.

In this context, Canada has recently announced the establishment of an Aid-Trade Fund within our ODA program. While the operational modalities of this fund are still to be worked out, I would like to emphasize that the objective of the fund is to provide financing for projects which have a high priority in the recipient countries' development plans, for which Canadian firms are competitive and for which development assistance financing is required. The operation of this fund will be consistent with current and future disciplines agreed to in the DAC and the Consensus. Indeed, as I have already pointed out, Canada stands ready, together with other OECD member countries, to strengthen those disciplines wherever possible.

Improving the Dialogue with Developing Countries

Finally, let me turn to the general question of our overall relations with developing countries. The Secretary-General's note rightly points to the need to improve the dialogue with developing countries, particularly in those areas of trade and finance where their role has become critical for successful management of the international economic system as a whole. On investment issues we believe the OECD, particularly the CIME may be able to improve the dialogue with developing countries through informal contacts and credible research. We believe that the growing interdependence in the economies of developed and developing countries and also the growing complexity of dealing with developing countries which have reached different levels of development and often have different interests at stake will require a more pragmatic approach focussing on specific problem areas. Canada has supported efforts within the United Nations system and elsewhere to give this dialogue new impetus and will continue to do so. We think that this Organization's North-South group can continue to play a fruitful role in consideration of how developing countries can be engaged, on the basis of perceived mutual interest and benefit, in this process.

INTERNATIONAL TRADE ISSUES

The importance of maintaining and strengthening the open multilateral trading system cannot be over-emphasized. As a result of the mixed economic record, the improvement in the trading environment which had been hoped for last year has not yet occurred and therefore it has not yet been translated into a reduction in protectionist pressures. The international trading system continues to be under strain and, unless major trading countries resist renewed protectionist pressures and start addressing seriously some of the issues which appear on the international trade policy agenda, prospects for improving the trading system will remain dim. Although economic conditions have not provided the room for manoeuvre needed by governments to take major steps to fully effect earlier commitments to dismantle protectionist measures, the initiatives which have been taken - or are going to be taken - are important.

At the beginning of this year, commitments agreed to in the Tokyo Round were implemented and subsequently participants in the GATT Agreement on Trade in Civil Aircraft agreed to a significant broadening of product coverage. As part of our endeavours designed to strengthen the multilateral trading system by relaxing and dismantling trade restrictive and distorting measures, it is proposed we agree to advance the implementation of our Tokyo Round tariff cuts, without product exception. It is important that we have agreed on a first step in these endeavours. Advanced implementation of the Tokyo Round tariff concessions constitutes an important demonstration of our continued capacity to move in the direction of greater openness. But we should not be complacent. This step does not deal with many pressing issues, which we must continue to pursue actively.

Canada is very much aware of the importance of providing improved access to developed country markets for the goods of developing countries. In this regard, we are considering extending the current duty-free access treatment to most LLDC exports of industrial goods and we are also considering requests for other improvements in our GPT.

Pressures on governments for protectionist actions are continuing unabated. It is important that we resist these pressures collectively to avoid impacting negatively on economic recovery, the multilateral trading system and on the international financial system. In this regard, the OECD Secretariat and the Trade Committee have provided useful assessments of our performance and of overall developments. This work is important and we look forward to its continuation. In our view the sectoral examinations, which it is proposed this organization carry out, are a priority. We believe that these examinations must include a focus on structural problems - specifically, an effort to analyze the causes which are driving structural change. Often these causes stem from domestic pressures brought about by shifts in demand or changes in technology but are erroneously or conveniently attributed to international competition. If the sectoral examinations address the cause of structural change and the consequences of protectionist measures, they should lead not only to better prescriptions but also hopefully to more effective preventative medicine.

The continued use of grey area measures poses a serious problem for the multilateral trading system. Such measures, which are not taken formally under Article XIX and are not notified to the GATT, must be subjected to more effective monitoring. We should strive to work together to reach a consensus on how these measures can best be monitored in order to achieve a greater degree of transparency. Effective monitoring and improved transparency would contribute significantly to our understanding of the implications and impact of grey area measures and our ability to be able to bring such measures under international discipline.

We have heard some talk recently in academic circles about the decay of the GATT and the erosion of the trading system. Such logic often seems to lead in the direction of concluding that we should abandon the system. Such a conclusion is not justified. The value of the major trade institutions must be determined by their utility and relevance to governments in the conduct of sound economic policies and trade relations, and not be abstract academic judgements. The GATT and the trade work in this organization remain vital to us all.

Regarding efforts to strengthen the multilateral trading system, it is clear that there is room for improvement in the functioning of the institutions and in the rules themselves. Furthermore some problems have only begun to become apparent in recent years and we need to give them more careful attention to see what may be required. Furthermore there are important sectors where major impediments to trade remain, for example in agriculture, fisheries and resource products. We have an ambitious programme of work here in the OECD and in the GATT. If we are serious about our political commitments to the trading system we must inject a sense of renewed vigour into these activities. I consider we have a lot to gain, and even more to lose, if we fail to seize this opportunity and to accept our responsibilities.

We should, therefore, encourage the Organization to pursue the work underway on relatively new trade issues such as trade in services and in high-technology products as well as that related to competition, consumers and trade. As a major agricultural producer and exporter, we are actively involved in the work programme stemming from the Ministerial mandate in 1982; we trust that this will complement and eventually contribute to the GATT activities aimed at improving the conditions of agricultural trade. Canada attaches a high degree of importance to continuing work by the OECD on trade in fisheries in line with the mandate given by Ministers two years ago.

I consider that many of the problems which we are now identifying can only be resolved in a negotiating context. I believe our work in support of the objectives we have discussed can only be successful if a new negotiating conference in the GATT framework in an integral part of our plan. It is only by such a negotiation that some of our most complex and pressing problems can be satisfactorily addressed. But in order to arrive at that stage we must intensify our efforts to implement our existing commitments, most importantly that work we agreed in the GATT in November, 1982 and our efforts here to strengthen the trading system. In preparing for new negotiations we must work to develop a broad consensus among all major GATT contracting parties and ensure that we as Ministers provide direct guidance to this process. I am encouraged that a start towards such consensus building has been made at several meetings over the past year, called to consider broad trade issues, involving Ministers from both developed and developing countries.

INTERNATIONAL INVESTMENT ISSUES

International direct investment and the operations of multinational enterprises continue to be of major importance in promoting world economic growth and stability. We therefore welcome the Review of the 1976 OECD Declaration on International Investment and Multinational Enterprises. The Declaration has stood the test of time as a balanced multilateral instrument: comprising guidelines to MNEs which facilitate their contribution to social and economic development, and broad recommendations to governments designed to contribute to a healthy investment climate, in areas such as national treatment and international incentives/disincentives. It is thus important that, as governments review the application of the Declaration, MNEs will also renew their efforts to observe the Guidelines.

The Review addresses a number of new areas of concern. We believe that the Declaration and Council decisions should continue to evolve in a balanced way to reflect on-going developments. Active promotional efforts should be undertaken by all concerned parties to enhance the influence of the Declaration.

In particular, the Review notes that the problem of conflicting requirements, or extraterritoriality, has increased in both scope and importance in recent years. Ultimately, the difficulties caused by the imposition of legal requirements on MNEs by one country in a manner that conflicts with the law or established policies of another member country can only be resolved through the willingness of all member countries, particularly the United States, not to encroach on a jurisdiction more properly appertaining to another state. There must be agreement on the underlying legal principles involved. But in progressing towards such a solution, we are encouraged by the general considerations and practical approaches agreed within the CIME that should govern state action. As is recommended, this consensus should be specifically endorsed by Ministers as a significant set of recommendations on an area of profound concern to governments and MNEs.

We believe that this section of the Review properly reflects the necessity that any state, when contemplating action which may lead to conflicting requirements, must at a minimum have full regard for international law, the sovereignty and legitimate economic interests of other member countries, and the resultant need for moderation and restraint. These general considerations demand that practical approaches, including advance notice and consultation, both bilateral and multilateral, with a view to finding alternatives that would not involve such conflicting requirements, must be implemented in good faith. Confirmation of these arrangements, as reflected in the revised Council decision on the Guidelines, cannot but serve to mitigate the problem.

In view of the major implications of structural adjustment, we think it was appropriate that the Review address the role of MNEs in this process. While structural adjustment as pursued by MNEs is necessary and positive, the size and flexibility of MNEs and the fact that major restructurng decisions may be taken outside of a particular jurisdiction of the country concerned can pose special sensitivities to governments. We would agree that the OECD Guidelines should be applied by MNEs in a way that will contribute to increasing the benefits and decreasing the costs of adjustment. As mentioned in the Review, MNE decision making processes should provide their entities with responsibilities and resources to develop their competitive potential in foreign and domestic markets, cooperate in good faith with employee representatives, develop R&D capacity where competitively feasible and to otherwise satisfy host government policies relating for instance to developing and utilizing domestic economic sources of supply, upgrading natural resources before export and encouraging local equity participation.

The work done in the Review on national treatment has helped to clarify the concept. Like other OECD countries, Canada regards it as one important element in contributing to a healthy international investment climate. The extensive survey of national treatment exceptions and other discriminatory measures in the OECD area, reveals, however, that many member states will continue to maintain policies that deviate from national treatment. The Canadian position in this regard has been stated on many occasions and is well known. The incidence and nature of such policies will continue to be influenced by levels of foreign control and the need to promote important national interests. The Review indicates that the Declaration recognizes that discriminatory measures may be taken for economic interests, cultural interests or other national geopolitical interests, but that such measures constitute exceptions. As such and consistent with the Council decision, they should be reported and consulted on, as appropriate in the CIME, a process which has proved useful in extending international cooperation. In strengthening the national treatment procedures, we particularly welcome further study of measures taken for security and public order reasons.

The work that has been undertaken on trade related investment measures (TRIMS) in both the CIME and Trade Committee has been useful. The overall conclusions are balanced reflecting few major generalized negative effects on international trade and investment flows, although at times particular disincentives may arise for individual enterprises. Moreoever, these measures must be seen in light of general governmental economic policies, accounting for incentives programmes and some concern about practices of MNEs related to procurement and restrictions on export freedom for subsidiaries. We believe that further work on this issue can be handled within existing procedures and decisions of the Trade Committee and the CIME. As a means of increasing international cooperation, we endorse the recommendation to broaden the Council decision on incentives and disincentives to allow a greater variety of measures affecting international investment flows to be made potentially subject to consultations.

We have followed closely the discussions that have taken place in the last two years to fill in the gaps and strengthen the OECD investment instruments, notably the 1976 Declaration and the Code of Liberalization of Capital Movements. A you know Canada is not currently a member of the Code of Liberalization of Capital Movements although we have over time supported the general principles embodied in the Code and have cooperated with the OECD in the provision of information and in other ways. Recently, we have conducted an in-depth review of our position on the Code. As a result, I am pleased to announce Canada's intention to enter into formal adherence to this OECD instrument with the appropriate reservations available under the Code to reflect the general thrust and orientation of Canadian policies and the need to continue to take into account special Canadian circumstances.

Canada supports the principle of international capital mobility. Our important role as a capital importer and exporter argues in favour of participation in a Code that discusses policies and norms related to capital movements to promote effective economic cooperation. In the area of international direct investment, we support a balanced and a positive dialogue in the OECD. Our intention to adhere to the Code reflects our desire to participate actively in OECD work in this area.

We are aware of the nature and scope of the reservations maintained by the majority of the members of the Code with respect to direct investment. In fact, our laws and policies towards foreign direct investment are not greatly dissimilar to those maintained by the majority of other OECD countries which, in this regard, have accomodated their sensitivities and special circumstances by lodging general or partial reservations as permitted by the Code. It would therefore be Canada's intention to lodge an appropriate reservation upon adherence on inward direct investment consistent with its policies and national objectives and requirements in this area. We hope that full Canadian participation can begin as soon as the appropriate modalities of adherence are worked out.

GUIDELINES ON THE PROTECTION OF PRIVACY AND THE TRANSBORDER FLOW OF PERSONAL DATA

It is my pleasure to take this opportunity to announce Canada's intention to join, in the very near future, with other member countries that have already adhered to the OECD voluntary "Guidelines on the Protection of Privacy and the Transborder Flow of Personal Data". The Guidelines are a major achievement of the OECD in a new and difficult area. They deal with largely uncharted areas of policy requirement. They have achieved a consensus among nations of widely divergent cultural and legal backgrounds, and have come to grips with a sensitive issue of growing international importance.