

DEPARTMENT OF EXTERNAL AFFAIRS

CA1  
EA  
I56  
ENG  
Jan 1990

BFL  
DRIVE



LATEST ISSUE  
DERNIER  
NUMERO

# INTERNATIONAL

# PERSPECTIVES

## CANADA AND THE WORLD

JANUARY 1990 RETURN TO DEPARTMENTAL LIBRARY VOLUME XIX, NUMBER 1

RETOURNER A LA BIBLIOTHEQUE DU MINISTRE

**PRESIDENT**  
W.H. Baxter  
**VICE-PRESIDENT**  
David McClung  
**EDITOR**  
Edgar J. Dosman  
**ASSOCIATE EDITOR**  
Kenneth A. Pole

**CONTRIBUTORS**  
Tim Draimin, John Halstead,  
David H. Pollock

A Baxter Publication

### CONTENTS

A New European Order ..... 1  
 Letter From The President ..... 2  
**SIGNPOSTS** ..... 3  
**REGIONS**  
 Sandinistas Destined For  
 Re-election in Nicaragua ..... 5  
 Panama: Fallout  
 From U.S. Invasion ..... 5  
**DIPLOMACY**  
 Mulroney in Moscow ..... 6  
 Practicability Prevails In Moscow ..... 6  
 Canadians' Strategic Viewpoint ..... 7  
 Tightening The Pursestrings ..... 7  
**ECONOMY**  
 Canadian Report Card ..... 8  
 Diplomatic Bouillabaisse  
 Leaves a Bad Taste ..... 9  
 A Curious Posture on Pacific Trade ..... 9  
 Agricultural Reform Under GATT ..... 10  
**STATISTICS**  
 International Trade ..... 11  
 External Affairs Budget ..... 11  
**LAST WORD**  
 The Global Agenda ..... 12

## A New European Order

In the space of the last few months, we have witnessed nothing less than the birth pangs of a new Europe as the Iron Curtain is dismantled from within. A non-communist government has been elected in Poland. The Communist Party in Hungary has liquidated itself in preparation for free elections. The whole power structure of the communist regime in East Germany has been swept away in favour of a reformist coalition which has proposed free elections. And in Czechoslovakia, the Communist Party is under pressure to negotiate an end to its monopoly. The brutal oligarchy in Romania has at last been toppled and the ice is thawing in Bulgaria.

Apart from Romania, all this has been remarkably peaceful so far, but the pace is breathtaking and could easily get out of hand. Revolution, not evolution, it is coming from below, unlike the reform from above which Mikhail Gorbachev is trying in the Soviet Union. The trouble is that while old regimes have lost legitimacy and the capacity to govern, the new popular movements have not yet gained either the authority or the experience to do so. In this vacuum, the frustration and anger of the people could degenerate into anarchy. Thus, while the East-West confrontation has declined, the dangers of instability have mounted.

Most dramatic to date is the breaching of the Berlin Wall. Deeply moving and politically profound, it put German reunification squarely on the international agenda again. And this time it seems likely to be not a question of whether, but of when and how. Chancellor Helmut Kohl proposed a three-stage shift — in tandem with East German reforms. Vague about 'when' and careful about 'how', he evidently hoped to satisfy his domestic audience while not provoking those elsewhere who harbour fears of a resurgent Germany. He has not been entirely successful.

West Germany's EEC partners propose to accelerate their own integration. The United States stresses the need for a gradual process that also would involve NATO. In East Germany, reunification calls have been voiced at mass rallies but both the reform movements and the communists remain skeptical. As for the Soviets, they warn against any 'artificial pressures' to precipitate the question. Significantly, the Soviets also have invoked anew the quadrilateral machinery in Berlin, underlining what they see as the continued responsibility of themselves, Britain, France and the U.S. for eventual disposition of the German question.

Less dramatic but no less important is the transition that has been taking place from a bipolar to a multipolar world, with the relative decline of the two superpowers and the rise of new power centres. It is the EEC which so far has produced the most substantial aid package for Eastern Europe and there is little doubt that it will be German capital and technology which will have the greatest impact on the economic reconstruction of Eastern Europe. In fact, economic integration of the Germanies will come before their political reunification.

At the same time, the Americans and Soviets find they have a common interest in maintaining security and stability as the new Europe takes shape. NATO indeed may be more relevant now than ever, not so much militarily but as a political instrument for co-ordinating Western policy and ensuring that change is managed in a stable manner. NATO also could develop, in time, organic links with the Warsaw Pact as the latter becomes increasingly divested of its military and ideological accessories. And there may well be a role for a more structured Conference on Security and Cooperation in Europe. The 1990s promise to be interesting.

John Halstead is Chairman of the Canadian Council for European Affairs and former Canadian ambassador to NATO and West Germany.

INTERNATIONAL PERSPECTIVES, National Press Building, 150 Wellington Street, Suite 302, Ottawa, Ontario, Canada K1P 5A4 • Second Class Mail Registration No. 4929 • INTERNATIONAL PERSPECTIVES, National Press Building, 150 Wellington Street, Suite 302, Ottawa, Ontario, Canada K1P 5A4 • Second Class Mail Registration No. 4929 • INTERNATIONAL PERSPECTIVES, National Press Building, 150 Wellington Street, Suite 302, Ottawa, Ontario, Canada K1P 5A4 • Second Class Mail Registration No. 4929 • INTERNATIONAL

Storage  
CA1 EA 156 ENG  
Jan 1990  
International perspectives. --  
32754890

**INTERNATIONAL  
PERSPECTIVES**  
CANADA AND THE WORLD

Dear Reader:

With this issue of International Perspectives (Volume XIX, Number 1) dated January, 1990 we are proud to introduce our new format and increase our publishing frequency to 12 issues per year. To keep up with this increase in frequency and Canada's growing participation in world affairs we have been fortunate to gather a distinguished group of regular contributors each a specialist in his/her own field.

International Perspectives is totally independent in its views and directions. Its future does not depend in any way on government subsidy. We do however, depend on you, the reader and hope that we can count on you as a subscriber.

Sincerely,



W.H. Baxter

National Press Building, 150 Wellington Street, Suite 302, Ottawa, Ontario, Canada K1P 5A4  
Tel: (613) 238-2628 Facsimile: (613) 234-2452  
Toronto Office: 310 Dupont Street, Toronto, Ontario Canada M5R 1V9 Tel: (416) 968-7252 Fax: (416) 968-2377 Telex: 065-29085  
A Baskin Publication

# SIGNPOSTS

**OTTAWA** — Canada has extended its General Preferential Tariff to Hungary and Poland. In effect since December 1, it fixes most tariffs at two-thirds of the Most Favoured Nation rate but occasionally eliminates some tariffs. Preferential rates are accorded most manufactured and semi-manufactured goods and some agricultural products. Most textiles, clothing and footwear are excluded. GPT status for Poland was followed by an announcement that Canada's contribution to a \$1-billion OECD aid package for Poland would be \$30 million, including emergency food aid. In addition, Canada is prepared to reschedule \$2.6 billion in outstanding Polish debt.

**WINNIPEG** — Audrey McLaughlin, 53, a consultant and social scientist, is the new leader of the New Democratic Party and the first woman to head a mainstream federal political party in North America. She succeeds Ed Broadbent — who was subsequently named by Prime Minister Mulroney as first president of the Montreal-based International Centre for Human Rights and Democratic Development, which will function as a clearing house and government advisory body about human rights issues abroad. Ms. McLaughlin defeated British Columbia MP David Barrett 1,316 to 1,072 on the fourth ballot of the leadership convention. First elected to the House of Commons in a July, 1987 byelection in the Yukon, she led the leadership contest from the outset. There were five other candidates.

**OTTAWA** — It cost Canadian softwood lumber producers some \$1.89 million in fiscal 1988-89 to administer a special export tax that was effectively forced on Canada by the United States. A report tabled in the House of Commons shows that the Softwood Lumber Products Export Charge generated nearly \$67.05 million in the latest fiscal year. Once administration costs had been covered, the balance was distributed to the producing provinces eligible for a refund. Canada acceded to the tax in 1987 in the face of American threats to impose protective tariffs on Canadian softwood because provincial stumpage fees were seen by Washington as an unfair subsidy.

**TORONTO** — Canada's first war crimes trial has begun. Imre Finta, who came here from Hungary as a refugee in the 1950s, is accused of having organized in 1944 the detention of all Jews in Szeged and then deporting 1,815 to Nazi death camps in Poland. The prosecution was made possible by a 1987 Criminal Code amendment that permits trials for war crimes and crimes against humanity committed in another country as far back as World War II. In the meantime, an Ottawa-area man, Michael Pawlowski, has been charged under the same statute with killing 490 Soviet Jews and Poles in Byelorussia in 1942. Released on bail shortly after his arrest in late December, Pawlowski, like Finta, has pleaded not guilty. Justice Department officials say a total of 45 suspects are under scrutiny and that more charges could be laid by mid-summer.

**OTTAWA** — The current Atomic Energy Control Board staff of 267 and 1989-90 budget of approximately \$26 million is being augmented by 15 person-years and \$2.1 million this fiscal year. It will be followed by 39 more PYs in each of the next two years as well as \$10.7 million in extra funds in 1990-91 and a further \$12.6 million in 1991-92. The AECB has been particularly short of reactor analysts and inspectors, radioisotope inspectors, and staff who watch over packaging and transportation of radioactive materials.

**CAIRO** — Atomic Energy of Canada Ltd. is about a third of the way through a three-year exploratory project aimed at developing a power reactor industry in Egypt. The country's Nuclear Power Plants Authority is learning to manufacture Candu fuel bundles that will be test-burned at AECL's Chalk River laboratories in Ontario. Although some Canadian technology is being transferred, the project is strictly experimental in that no commercial agreement has been signed. Nevertheless, the project is seen as a key step toward the sale of a Candu reactor to Egypt.

**OTTAWA** — Countries committed to nuclear generation of electricity will be watching a new Canadian review of proposed underground disposal of spent reactor fuel and other waste. An en-

vironmental panel has been commissioned and Environment Minister Lucien Bouchard says it 'will review the safety and the acceptability' of this option as proposed and researched by Atomic Energy of Canada Ltd. An independent panel of experts told Ottawa in 1977 that deep disposal in stable Canadian Shield igneous rock formations was the preferred option. That prompted a research and development commitment the following year.

**HALIFAX** — A \$33.8-million funding arrangement with the Canadian International Development Agency permits Dalhousie University to improve Indonesia's environmental management capabilities. Signed by External Relations Minister Monique Landry, the agreement underwrites the costs of advising various government agencies and private sector organizations on how to upgrade regional planning and resource information systems and on development of pollution control measures and environmental impact assessment procedures. It also provides for training of Indonesian professionals and assistance in drafting environmental management laws.

**OTTAWA** — A suggestion that Canada should reduce its dependence on foreign intelligence sources has fallen by the political wayside. Solicitor-General Pierre Blais says current policy is adequate because 'we have a very good relationship with our allies.' The Security Intelligence Review Committee had warned that reliance on external intelligence 'may pose a threat to Canadian independence in some circumstances', even from friendly nations. 'To the extent that covert sources of intelligence are an asset in gaining access to markets and technologies and in international bargaining, Canada will be at a disadvantage with its major trading partners.' The SIRC cited Australia's establishment of its own external network to concentrate on political and economic intelligence.

**OTTAWA** — Draft legislation extending intellectual property laws to the computer chip industry has been introduced in the House of Commons. The proposed Integrated Circuit Topography Act, Bill C-57, would give the two dozen

## SIGNPOSTS

Canadian companies that design and manufacture integrated circuits or chips 10 years of protection against reproduction in any form for commercial purposes without express consent. If an IC is manufactured elsewhere without consent, the company would be able to get a court-ordered ban on its importation. The value of Canadian IC production currently is estimated at \$300 million and Canadian telecommunications firms, global leaders in their field, are particularly vulnerable to foreign piracy.

**OTTAWA** — Canada has provided \$2.5 million for the purchase and transportation of food aid for refugees and displaced persons in Senegal and Mauritania. Wheat, white beans, whole milk powder and canned fish are being bought by the Canadian International Development Agency for distribution by UN staff.

**OTTAWA** — A mid-October declaration by Canada that it would be contributing \$5 million to the World Bank's Technical Assistance Grant Programme for environmental activities was a trifle premature. None of the funding, to be provided over five years, had been forwarded by the Canadian International Development Agency by the end of the year.

**VANCOUVER** — Inderjit Singh Reyat, wanted on manslaughter and explosives charges in connection with a 1985 bombing at Tokyo's Narita airport is back in Canada after a lengthy battle against extradition. A resident of British Columbia when two Japanese baggage handlers were killed at Narita, he moved to England in mid-1986 and was arrested there in early 1988. He fought extradition through magistrate's court and the High Court before the House of Lords refused to consider a final appeal. He then sought Home Secretary David Waddington's personal intervention to permit an appeal to the European Commission on Human Rights but this was refused.

**TORONTO** — The Royal Bank of Canada says there is 'a distinct possibility' that the current excess capacity in the North American automotive sector will lead to industry pressure on government 'to in-

crease protectionist measures.' It also suggests that import penetration of the Canadian passenger car market, which was 36% in the third quarter of 1989 compared with the year-earlier 34.5%, might increase as overseas manufacturers move aggressively to capture an increasing share through incentive and new model offerings.

**OTTAWA** — Canada's policy of dampening inflation by keeping interest rates high is backfiring on the government. Finance Minister Michael Wilson has disclosed that the Bank of Canada policy, which has resulted in rates that are four points higher than they are in the U.S., has added \$6.5 billion to the cost of carrying the cumulative debt in the current fiscal year. 'We were looking at interest costs of, I think, \$33 billion ... at the time of the last budget,' he says. 'They've gone up to \$35 billion. That has meant a significant change in the fiscal position of the government.'

**OTTAWA** — Canadian and American officials are planning formal talks on income and estate tax matters 'in the early part of 1990,' the Finance Department says. 'These discussions will focus primarily on the effect on Canadians of recent changes to the United States federal estate tax and on the provisions of the convention ... with respect to taxes on income and on capital signed on September 26, 1980.' Before a date for the talks to begin is fixed, the department's Tax Policy and Legislation Branch — 140 O'Connor Street, Ottawa K1A 0G5, telephone (613) 992-4859 — is soliciting comments on what specific questions should be addressed.

**CHICAGO** — A poll commissioned by American and Mexican corporate interests suggests that 85% of U.S. residents favour a North American common market. It involved 1,200 respondents who were surveyed by telephone in November and was keyed to anticipated competition when the European Economic Community drops its internal trade barriers in 1992. 'It's an evolutionary thing that appears to be inevitable,' comments Nino Noriega, spokesman for the U.S.-Mexican Development Corporation. 'You have Mexico with vast natural resources and a large pool of less

expensive labour; the U.S. with technological expertise; and Canada with a small population but a strong currency and credit power.'

**LUSAKA** — Jacques Bussieres, senior advisor to Bank of Canada Governor John Crow on international affairs, has been named Governor of the Central Bank of Zambia through a protocol agreed to by Prime Minister Mulroney and President Kenneth Kaunda. 'This agreement has been reached in recognition of the assistance needed by Zambia in its programme for structural adjustment,' the Prime Minister's Office said in a prepared statement. With the Bank of Canada in various capacities since 1960, Mr. Bussieres, a commerce alumnus of Laval University in Quebec City, has done post-graduate work in economics at Harvard and the London School of Economics. President Kaunda fired his former central bank head, the fourth to hold the post in as many years, amid allegations of corruption late last year.

**TORONTO** — The Ontario Municipal Board has upheld an Ottawa bylaw that prevents foreign missions from opening more offices in residential areas of the national capital. The city passed the bylaw in response to homeowners' complaints about the presence of armed RCMP guards in security posts. Henceforth, the size and number of the posts is restricted and foreign governments' proposals for new chancelleries will require zoning approvals.

**VANCOUVER** — Visiting foreign warships are entitled to the same legal protection afforded domestic vessels. Judge W. C. Craig of the British Columbia provincial court handed down this ruling at the beginning of a trial of nine Greenpeace activists who were arrested during a protest against the presence of the American aircraft carrier USS Independence on a courtesy visit to Vancouver in August. They are charged with mischief and could face up to five years in prison as well as stiff fines. Their defence counsel had argued that a foreign-registered vessel is similar to an embassy and should be outside of a Canadian court's jurisdiction.

## REGIONS

### Sandinistas Destined for Re-election in Nicaragua

**MANAGUA** — The 'holiday season' brought dramatic reminders of United States' strength and weakness in Central America. General Noriega was eventually toppled by the 24,000-strong U.S. military force that invaded Panama December 20. But, as a poll released January 5 indicates, Nicaragua's Sandinista government seems sure of re-election February 25.

The events in Panama had a direct impact on Nicaragua. Soon after the invasion, the Americans encircled the Nicaraguan embassy only to have Nicaragua reciprocate against Washington's embassy in Managua. Then the U.S. troops raided the Panama City home of Nicaragua's ambassador. Nicaraguan President Daniel Ortega described the immediate aftermath of the raid, which culminated in the expulsion of 20 U.S. diplomats from Nicaragua, as the closest the two countries had come to direct hostilities.

Indirect hostilities continued though. On New Year's day, elements of the U.S.-backed Contras — who subsequently denied responsibility — killed two nuns, an American and a Nicaraguan, and wounded a U.S.-born Bishop. Four days later, another Contra attack claimed two more lives, including that of a Sandinista election campaign official.

Nicaragua's electoral process continues normally despite this. Conducted in December, the poll showed President Ortega and the Sandinistas pulling away from Violeta Chamorro's right-of-centre United Nicaraguan Opposition (UNO).

But there remains a sizable undecided vote and the Panama invasion, supported by the UNO, undoubtedly will further the Sandinistas' appeal to this block of voters. The question here is how the U.S. will react to the Sandinistas' increasingly certain victory. Before Panama, many optimistically hoped President Bush finally would terminate Washington's \$4-million-a-month support for the Contras after the election, even though his pledge is only to end the trade embargo if Chamorro wins. Now the ultimate direction of U.S. policy is clouded. Distrust of U.S. intentions runs so high that there is widespread fear Washington might provoke incidents to discredit the electoral process. It is not clear how that

could be achieved, however, given the multitudinous presence of the different Organization of American States (OAS), United Nations (UN) and non-governmental observers.

Washington has invested heavily in the Nicaraguan opposition. Newsweek reports the CIA spent \$5 million on covert aid by September 1989. Congress allocated \$9 million in overt aid two months later. U.S. policy-makers still seem to find it hard to accept that radical nationalism, fueled by deeply-rooted 'anti-Yanqui' emotions could gain a majority. Stereotypical comparisons between socialist Nicaragua and communist Eastern Europe misunderstand the indigenous roots of Nicaragua's pragmatic revolution. In a clear statement of opposition to the Contra war, the Central American presidents called December 12 for all Contra monies to go through the joint UN-OAS International Support and Verification Commission (CIAV) overseeing Contra demobilization and repatriation. The presidents also extended their demobilization deadline to February 5. The U.S. then committed some money for CIAV's operations. Canada has contributed \$700,000 to Nicaragua's Supreme Election Council and has made a thinly-veiled appeal to Washington to respect the election results. Addressing last fall's Hemispheric Summit in Costa Rica, Prime Minister

Mulroney said that 'once the people of Nicaragua have freely spoken, their will must be fully respected — inside Nicaragua and out.'

Canada has been much more circumspect when addressing the Contra issue. Due to escalating Contra attacks, Nicaragua suspended its unilaterally maintained ceasefire with them. External Affairs Minister Joe Clark declines comment on Nicaragua's charges, saying Canada's lack of representation on the ground prevents his department from having enough information.

Canadian officials in the past have maintained that Canada must carefully protect its 'neutrality' as a member of the United Nations Observer Group in Central America. Hence, there has never been any explicit criticism of U.S. policy. It is far from clear how Canada's neutral posture squares with the Prime Minister's support for the U.S. invasion of Panama. An unofficial Canadian election observer group, led by the Canadian Council for International Cooperation and the Inter-Church Committee for Human Rights in Latin America, has concluded that 'American intervention continues as the main obstacle to the attainment of free and fair elections.' Even the UN observers, headed by former U.S. Cabinet member Elliot Richardson, have acknowledged that Contra attacks had tripled during voter registration.

— Tim Dralmin is Manager of Development Policy for the Canadian Council for International Cooperation.

### Panama: Fallout From U.S. Invasion

Although anticipated and supported in Washington, President George Bush's decision to invade Panama on December 20 shocked world opinion in general and Latin America in particular. It provided a vivid reminder of earlier U.S. military intervention and was 'deeply regretted' by the Organization of American States (OAS). Ironically, the invasion coincided with tentative signs of a revival in inter-American relations, and the possibility of joint U.S.-Latin action to counter General Manuel Noriega, who was increasingly isolated in the region for his corrupt political practices and alleged narcotics trafficking. By invading — with high Panamanian civilian casualties and material costs and in defiance of Latin and world opinion — Mr. Bush seems to be signalling a new period of unilateralism in the Western Hemisphere as Soviet interest in the region diminishes. While the new Endara government installed by the U.S. will now receive major aid in establishing itself, the impact of the invasion on the other flashpoints in the ongoing Central American crisis remains uncertain. Career diplomat Jean-Paul Hubert, flown directly in from Senegal January 5 as Canada's first ambassador to OAS, has a tough job ahead of him.

# DIPLOMACY

## Mulroney in Moscow: A Sign of the Times

The first visit by a Canadian prime minister to the Soviet Union in 18 years was triumphal, contrary to predictable political and media sniping that it had to make up in style what it lacked in substance. Prime Minister Mulroney's rapport with Mikhail Gorbachev, and the welter of signed agreements and memoranda were eloquent testimony to a more productive relationship between the world's two major Arctic nations. Furthermore, many of the 200-odd businessmen along for the trip were enthusiastic about opportunities for trade and investment, and a prominent Ottawa-based legal firm, Gowling Strathy Henderson, has already moved to establish a Moscow office to facilitate investment and joint ventures. Central to the economic part of the visit was an agreement in which each country promises to ensure that the other's investments will receive 'fair treatment in cases of expropriation, nationalization or transfer of funds.'

Possibly the most important aspect of the trip from a strategic perspective was a declaration by the two leaders that their governments 'respect the rights of the peoples of Europe to pursue paths of political and economic change without outside interference and in an atmosphere of international confidence and security.' Signed in the Kremlin, the document is seen as a commitment by the Soviets not to intervene in the democratization taking place among many of its allies. 'Both countries are committed to building bridges of understanding and co-operation to overcome this legacy (of a divided and heavily-armed Europe) and strengthen their common search for security.' Mr. Mulroney, previously reserved in his assessment of President Gorbachev's perestroika and glasnost, was laudatory in Moscow. 'He's a man of great vision who has initiated profound reforms that have clearly had a beneficial effect, not only across Europe but around the world.' Mr. Gorbachev called his visitor 'a personality and policy-maker' who meets the demands of a changing world. Welcoming the refreshed Canada-Soviet relationship, he predicted it would become 'richer and more substantive.' The visit included an announcement of

Canadian plans for a consulate in Kiev. There also was confirmation that NATO and Warsaw Pact foreign ministers were invited to a February 12-14 'open skies' conference in Ottawa. Soviet Foreign Minister Eduard Shevardnadze and his American counterpart, Secretary of State James Baker, had already accepted. Open skies would permit 'short-notice overflights' of the signatories' territory by others' unarmed aircraft 'to satisfy themselves regarding the peaceful intentions of the other adherents.' Canada's position is that there should be no restrictions other than the basic air safety regulations applicable to civil aircraft. The Ottawa ministers conference is followed by 2 weeks of officials' meetings. This is to be followed within a few months by a conference in Hungary before any agreements are signed. In that vein, a Canada-Soviet agreement establishing the first military exchange programme between the two countries was signed.

Another agreement will lead to a resumption of scheduled Canadian air service to Moscow this year. The agreement amends a 1966 bilateral agreement to give Canadian Airlines International Limited rights to a route given up by Air Canada in 1977. In return, Aeroflot has rights to the routes between Gander, Newfoundland, and Shannon, Ireland, as well as Gander-Cuba. 'The new traffic rights created by this amendment are expected ... also to lay the basis for a further mutual expansion of traffic rights at the next round of air negotiations in 1990,' External Affairs Minister Joe Clark's staff explained after he and Mr. Shevardnadze exchanged notes. Although the route was unprofitable for Air Canada, 'the demand

for expanded air service between Canada and the Soviet Union has increased considerably in the past year as both business ties and tourism ... have escalated,' Mr. Clark's staff said.

Several agreements of an environmental nature also were signed. The broadest is a four-year commitment to 'joint action in areas such as environmental protection, atmospheric and marine pollution, climate change and ecosystem conservation.' A Memorandum of Understanding on co-operative atmospheric environmental programmes will facilitate an exchange of data on pollution. A second MoU within the agreement's ambit should to promote 'scientific co-operation in water research and future joint commission research ventures.' Another agreement establishes a framework for Arctic co-operation, including creation of a joint to oversee scientific, technical, economic, social and cultural co-operation. A separate MoU, signed by Mr. Mulroney and Prime Minister Nikolai Ryzhkov, is designed to limit oil spill potential. 'Our first priority is to improve the method of prevention as well as regulatory and monitoring initiatives in each country,' Mr. Mulroney said. 'The second priority is to reduce and control ship-source pollution through improved technology and greater international co-operation on information- and resource-sharing.' It commits both governments to exchanging a wide range of information on such things as environmental legislation, pollution prevention and monitoring and cleanup capabilities and research in the field. It also provides for an exchange of icebreaker captains as well as observers for cleanup at 'significant' spills.

### Practicability Prevails in Moscow

Contrary to what some western observers suggested in the wake of the latest Congress of People's Deputies in Moscow, the Soviets have not put the brakes on perestroika. What Mikhail Gorbachev and others seem to acknowledge, at last, is that the vaunted restructuring lacks a concrete foundation. Trying to appease conservatives and radicals, Mr. Gorbachev has opted for an ambivalent regime that is neither market-driven nor centrally planned but which leans toward the latter. Although regressive, it seems the only way to achieve admittedly modest but nonetheless realistic progress that would give him time to lay a proper foundation for his reforms.

## BE NOW!

Title: \_\_\_\_\_

Province: \_\_\_\_\_

City/Zip Code: \_\_\_\_\_

\$3.00, 1-year, 12 issues.  
\$6.00, 2-year, 24 issues.  
\$15.00, 3-year, 36 issues, or

\_\_\_\_\_

Canada are in US currency.  
International Perspectives.

Subscribe  
Now!

threat is an improvement on last year's 11%. Concern about the 'arms race' continues to decline, to 21% from 1988's 23, while concern about 'regional conflict' slips to 25% from 28. Although there is a sharp rise, to 40% from 32, in the proportion of worried about nuclear proliferation, the chance of nuclear war

evenly divided on the possibility that Canada might acquire more conventionally-powered submarines now that plans for a nuclear fleet have been scrapped. A total of 50.1% are 'strongly' or 'somewhat' in favour of the conventional option compared with 49.9% who oppose it. Asked about

## est CIIPS Poll

ment priorities over the next five 23.6% of the latest sample want aid cuts rather than defence cuts 1.2% prefer the opposite. Some want even reductions in both ce and foreign aid compared with who feel the cuts should have smaller.

rough the poll was done in Oc- and November, well before Prime er Mulroney's stated commitment ssels to keeping Canadian Forces ope as part of NATO, the response sts Mr. Mulroney is on the right on this aspect of Canadian defence : Participation in NATO is 'very im- nt' to 52.4% of the respondents ared with 33.7% for whom it is

only 'somewhat' so and only 13.9% for whom it is 'not very' important. The size of the current Canadian commitment is 'just about right' for 58.6% while 16.9% feel it should be more, 10.4% feel it should be less and 14.1% want total withdrawal.

## Tightening the Pursestrings: Aid Budget in Jeopardy?

The \$1.8 billion trimmed from Canada's Official Development Assistance (ODA) budget over the next 5 years does not 'reflect the wishes of a broad majority of Canadians who support a leading role for their country in fostering international development,' the North-South Institute (NSI) says. Yet the latest Canadian Institute for International Peace and Security poll indicates that a sizable number of Canadians may feel differently, possibly paving the way for further cuts as the government bears down on deficit reduction.

The NSI says if Ottawa is contemplating further aid cutbacks this year, it would be 'an abdication of Canada's commitment to developing countries.' While it sympathizes with the need to curb the deficit, it feels 'strongly that this should not be attempted at the cost of hurting our assistance to developing countries and jeopardizing prospects of moves toward a co-operative global community.' Furthermore, it considers the \$1.8-billion reduction as 'apparent abandonment' of the goal agreed to by

the government.

A possible signal of the government's intent is the pre-Christmas announcement that \$1.4 billion will be trimmed from overall spending in the next several years, beginning with \$460 million in 1990-91. There is a two-year extension of the 2% annual cap on departments' operating and maintenance budgets. There also is a reduction of \$70 million in funds for External Affairs and International Trade, starting with \$10 million in fiscal 1990-91 and rising in \$5-million increments through the following three years. 'Cuts will be considered in all areas of operations,' Treasury Board says of EA&IT. It also plans 'a full review' of Canadian International Development Agency decentralization, including potential transfer of staff to the field. 'It is felt that savings may be achieved by reducing or regionalizing some specialized aid delivery functions.... Construction of new aid administration facilities will be deferred.'

Public opinion aside, any re-examination of Canada's aid commit-

ment must be done against the backdrop of the recent meeting in Paris of representatives of the World Bank, the International Monetary Fund, the UN Development Programme, and the Development Assistance Committee of the OECD. They agreed 'the essential conclusion of DAC's work ... in the 1990s' must be a break in 'the vicious circle of underdevelopment that links high population growth, poverty, malnutrition, illiteracy and environmental degradation.' This would require economic and development strategies that promote sustainable growth while facilitating broader participation by the populations of the affected countries. 'Developing countries themselves are ultimately responsible for their own development,' but aid remained essential within an international framework that fosters trade and investment.

'Developed and other economically advanced countries cannot live in isolated enclaves of prosperity; the four bodies concurred.

# DIPLOMA

## Mulroney in Moscow: A Sign of the Times

The first visit by a Canadian prime minister to the Soviet Union in 18 years was triumphal, contrary to predictable political and media sniping that it had to make up in style what it lacked in substance. Prime Minister Mulroney's rapport with Mikhail Gorbachev, and the welter of signed agreements and memoranda were eloquent testimony to a more productive relationship between the world's two major Arctic nations. Furthermore, many of the 200-odd businessmen along for the trip were enthusiastic about opportunities for trade and investment, and a prominent Ottawa-based legal firm, Gowling Strathy Henderson, has already moved to establish a Moscow office to facilitate investment and joint ventures. Central to the economic part of the visit was an agreement in which each country promises to ensure that the other's investments will receive 'fair treatment in cases of expropriation, nationalization or transfer of funds.'

Possibly the most important aspect of the trip from a strategic perspective was a declaration by the two leaders that their governments 'respect the rights of the peoples of Europe to pursue paths of political and economic change without outside interference and in an atmosphere of international confidence and security.' Signed in the Kremlin, the document is seen as a commitment by the Soviets not to intervene in the democratization taking place among many of its allies. 'Both countries are committed to building bridges of understanding and co-operation to overcome this legacy (of a divided and heavily-armed Europe) and strengthen their common search for security.' Mr. Mulroney, previously reserved in his assessment of President Gorbachev's perestroika and glasnost, was laudatory in Moscow. 'He's a man of great vision who has initiated profound reforms that have clearly had a beneficial effect, not only across Europe but around the world.' Mr. Gorbachev called his visitor 'a personality and policy-maker' who meets the demands of a changing world. Welcoming the refreshed Canada-Soviet relationship, he predicted it would become 'richer and more substantive.' The visit included an announcement of

Canadian plans for a consulate in Kiev. There also was confirmation that NATO and Warsaw Pact foreign ministers were invited to a February 12-14 'open skies' conference in Ottawa. Soviet Foreign Minister Eduard Shevardnadze and his American counterpart, Secretary of State James Baker, had already accepted. Open skies would permit 'short-notice overflights' of the signatories' territory by others' unarmed aircraft 'to satisfy themselves regarding the peaceful intentions of the other adherents.' Canada's position is that there should be no restrictions other than the basic air safety regulations applicable to civil aircraft. The Ottawa ministers conference is followed by 2 weeks of officials' meetings. This is to be followed within a few months by a conference in Hungary before any agreements are signed. In that vein, a Canada-Soviet agreement establishing the first military exchange programme between the two countries was signed.

Another agreement will lead to a resumption of scheduled Canadian air service to Moscow this year. The agreement amends a 1966 bilateral agreement to give Canadian Airlines International Limited rights to a route given up by Air Canada in 1977. In return, Aeroflot has rights to the routes between Gander, Newfoundland, and Shannon, Ireland, as well as Gander-Cuba. 'The new traffic rights created by this amendment are expected ... also to lay the basis for a further mutual expansion of traffic rights at the next round of air negotiations in 1990,' External Affairs Minister Joe Clark's staff explained after he and Mr. Shevardnadze exchanged notes. Although the route was unprofitable for Air Canada, 'the demand

for a separate MoU, signed by Mr. Mulroney and Prime Minister Nikolai Ryzhkov, is designed to limit oil spill potential. 'Our first priority is to improve the method of prevention as well as regulatory and monitoring initiatives in each country,' Mr. Mulroney said. 'The second priority is to reduce and control ship-source pollution through improved technology and greater international co-operation on information- and resource-sharing.' It commits both governments to exchanging a wide range of information on such things as environmental legislation, pollution prevention and monitoring and cleanup capabilities and research in the field. It also provides for an exchange of icebreaker captains as well as observers for cleanup at 'significant' spills.

### Practicability Prevails in Moscow

Contrary to what some western observers suggested in the wake of the latest Congress of People's Deputies in Moscow, the Soviets have not put the brakes on perestroika. What Mikhail Gorbachev and others seem to acknowledge, at last, is that the vaunted restructuring lacks a concrete foundation. Trying to appease conservatives and radicals, Mr. Gorbachev has opted for an ambivalent regime that is neither market-driven nor centrally planned but which leans toward the latter. Although regressive, it seems the only way to achieve admittedly modest but nonetheless realistic progress that would give him time to lay a proper foundation for his reforms.

## SUBSCRIBE NOW!

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ Province: \_\_\_\_\_

Country: \_\_\_\_\_ Postal/Zip Code: \_\_\_\_\_

- Payment enclosed:  \$70.00, 1-year, 12 issues.  
 \$110.00, 2-year, 24 issues.  
 \$145.00, 3-year, 36 issues, or

Bill me (signature required): \_\_\_\_\_

Subscriptions outside Canada are in US currency.  
 Please make cheque payable to **International Perspectives**.

... threat is an improvement on last year's 11%. Concern about the 'arms race' continues to decline, to 21% from 1988's 23, while concern about 'regional conflict' slips to 25% from 28. Although there is a sharp rise, to 40% from 32, in the proportion of worried about nuclear proliferation, the chance of nuclear war

... for domestic policy, opinion is evenly divided on the possibility that Canada might acquire more conventionally-powered submarines now that plans for a nuclear fleet have been scrapped. A total of 50.1% are 'strongly' or 'somewhat' in favour of the conventional option compared with 49.9% who oppose it. Asked about

## Best CIIPS Poll

... nment priorities over the next five 23.6% of the latest sample want n aid cuts rather than defence cuts 1.2% prefer the opposite. Some want even reductions in both ce and foreign aid compared with who feel the cuts should have smaller. hough the poll was done in Oc- and November, well before Prime er Mulroney's stated commitment ssels to keeping Canadian Forces ope as part of NATO, the response sts Mr. Mulroney is on the right on this aspect of Canadian defence : Participation in NATO is 'very im- nt' to 52.4% of the respondents compared with 33.7% for whom it is only 'somewhat' so and only 13.9% for whom it is 'not very' important. The size of the current Canadian commitment is 'just about right' for 58.6% while 16.9% feel it should be more, 10.4% feel it should be less and 14.1% want total withdrawal.

## Tightening the Pursestrings: Aid Budget in Jeopardy?

The \$1.8 billion trimmed from Canada's Official Development Assistance (ODA) budget over the next 5 years does not 'reflect the wishes of a broad majority of Canadians who support a leading role for their country in fostering international development,' the North-South Institute (NSI) says. Yet the latest Canadian Institute for International Peace and Security poll indicates that a sizable number of Canadians may feel differently, possibly paving the way for further cuts as the government bears down on deficit reduction.

The NSI says if Ottawa is contemplating further aid cutbacks this year, it would be 'an abdication of Canada's commitment to developing countries.' While it sympathizes with the need to curb the deficit, it feels 'strongly that this should not be attempted at the cost of hurting our assistance to developing countries and jeopardizing prospects of moves toward a co-operative global community.' Furthermore, it considers the \$1.8-billion reduction as 'apparent abandonment' of the goal agreed to by

the government.

A possible signal of the government's intent is the pre-Christmas announcement that \$1.4 billion will be trimmed from overall spending in the next several years, beginning with \$460 million in 1990-91. There is a two-year extension of the 2% annual cap on departments' operating and maintenance budgets. There also is a reduction of \$70 million in funds for External Affairs and International Trade, starting with \$10 million in fiscal 1990-91 and rising in \$5-million increments through the following three years. 'Cuts will be considered in all areas of operations,' Treasury Board says of EA&IT. It also plans 'a full review' of Canadian International Development Agency decentralization, including potential transfer of staff to the field. 'It is felt that savings may be achieved by reducing or regionalizing some specialized aid delivery functions.... Construction of new aid administration facilities will be deferred.'

Public opinion aside, any re-examination of Canada's aid commit-

ment must be done against the backdrop of the recent meeting in Paris of representatives of the World Bank, the International Monetary Fund, the UN Development Programme, and the Development Assistance Committee of the OECD. They agreed 'the essential conclusion of DAC's work ... in the 1990s' must be a break in 'the vicious circle of underdevelopment that links high population growth, poverty, malnutrition, illiteracy and environmental degradation.' This would require economic and development strategies that promote sustainable growth while facilitating broader participation by the populations of the affected countries. 'Developing countries themselves are ultimately responsible for their own development,' but aid remained essential within an international framework that fosters trade and investment.

'Developed and other economically advanced countries cannot live in isolated enclaves of prosperity,' the four bodies concurred.

D

## Mulroney in Moscow

The first visit by a Canadian prime minister to the Soviet Union in 18 years was triumphal, contrary to predictions of political and media sniping that it would make up in style what it lacked in substance. Prime Minister Mulroney's rapport with Mikhail Gorbachev, and a welter of signed agreements and memoranda were eloquent testimony to a more productive relationship between the world's two major Arctic nations. Furthermore, many of the 200 businessmen along for the trip were enthusiastic about opportunities for trade and investment, and a prominent Ottawa-based legal firm, Gowling Henderson, has already moved to establish a Moscow office to facilitate investment and joint ventures. Central to the economic part of the visit was an agreement in which each country promises to ensure that the other's investments will receive 'fair treatment in cases of expropriation, nationalization or transfer of funds.'

Possibly the most important aspect of the trip from a strategic perspective was a declaration by the two leaders that their governments 'respect the rights of the peoples of Europe to pursue paths of political and economic change without outside interference and in an atmosphere of international confidence and security.' Signed in the Kremlin, the document is seen as a commitment by the Soviets not to intervene in the democratization taking place among many of its allies. 'Both countries are committed to building bridges of understanding and co-operation to overcome this legacy (of a divided and heavily-armed Europe) and strengthen their common search for security,' Mr. Mulroney, previously reserved in his assessment of President Gorbachev's perestroika and glasnost, was laudatory in Moscow. 'He's a man of great vision who has initiated profound reforms that have clearly had a beneficial effect, not only across Europe but around the world.' Mr. Gorbachev called his visitor 'a personality and policy-maker' who meets the demands of a changing world. Welcoming the refreshed Canada-Soviet relationship, he predicted it would become 'richer and more substantive.' The visit included an announcement of

reference is removed by 2 weeks of officials' meetings. This is to be followed within a few months by a conference in Hungary before any agreements are signed. In that vein, a Canada-Soviet agreement establishing the first military exchange programme between the two countries was signed.

Another agreement will lead to a resumption of scheduled Canadian air service to Moscow this year. The agreement amends a 1966 bilateral agreement to give Canadian Airlines International Limited rights to a route given up by Air Canada in 1977. In return, Aeroflot has rights to the routes between Gander, Newfoundland, and Shannon, Ireland, as well as Gander-Cuba. 'The new traffic rights created by this amendment are expected ... also to lay the basis for a further mutual expansion of traffic rights at the next round of air negotiations in 1990,' External Affairs Minister Joe Clark's staff explained after he and Mr. Shevardnadze exchanged notes. Although the route was unprofitable for Air Canada, 'the demand

### Practicability Prevails in Moscow

Contrary to what some western observers suggested in the wake of the latest Congress of People's Deputies in Moscow, the Soviets have not put the brakes on perestroika. What Mikhail Gorbachev and others seem to acknowledge, at last, is that the vaunted restructuring lacks a concrete foundation. Trying to appease conservatives and radicals, Mr. Gorbachev has opted for an ambivalent regime that is neither market-driven nor centrally planned but which leans toward the latter. Although regressive, it seems the only way to achieve admittedly modest but nonetheless realistic progress that would give him time to lay a proper foundation for his reforms.

## International Perspectives

Att. Guy Bolduc  
302-150 Wellington Street  
Ottawa, Ontario  
K1P 9Z9



to promote scientific co-operation in water research and future joint commission research ventures.' Another agreement establishes a framework for Arctic co-operation, including creation of a joint to oversee scientific, technical, economic, social and cultural co-operation. A separate MoU, signed by Mr. Mulroney and Prime Minister Nikolai Ryzhkov, is designed to limit oil spill potential. 'Our first priority is to improve the method of prevention as well as regulatory and monitoring initiatives in each country,' Mr. Mulroney said. 'The second priority is to reduce and control ship-source pollution through improved technology and greater international co-operation on information- and resource-sharing.' It commits both governments to exchanging a wide range of information on such things as environmental legislation, pollution prevention and monitoring and cleanup capabilities and research in the field. It also provides for an exchange of icebreaker captains as well as observers for cleanup at 'significant' spills.

## DIPLOMACY

### Canadians' Strategic Viewpoint: The Latest CIIPS Poll

As fears of a superpower conflict diminish, Canadians evidently are focusing their concern on possible proliferation of nuclear weapons to smaller countries that might be less reluctant to use them. This is one finding of the latest national poll conducted for the government-funded Canadian Institute for International Peace and Security by Longwoods Research Group. It used a nationally random sample of 890 respondents and the 50% response rate yields a 7-point margin of error.

'Soviet actions on the international scene' are seen by 5.4% as the greatest military threat to world peace, a perspective consistent through three CIIPS polls. The 9% who see the U.S. as the greatest threat is an improvement on last year's 11%. Concern about the 'arms race' continues to decline, to 21% from 1988's 23, while concern about 'regional conflict' slips to 25% from 28. Although there is a sharp rise, to 40% from 32, in the proportion of worried about nuclear proliferation, the chance of nuclear war

compared with 10 years ago generally is considered much smaller today with environmental and economic threats taking precedence over military ones.

Some 56.2% of the respondents agree with a suggestion that nuclear deterrence has been effective and 70.5% are confident it will remain so. On the other hand, the possibility of 'terrorists or a madman' using nuclear weapons within the respondents' lifetime is considered 'very likely' by 23.3% and 'likely' by 51.5%. Similar numbers turned up when the respondents were asked about the possibility of someone other than the Americans or Soviets using a nuclear weapon in a regional conflict.

As for domestic policy, opinion is evenly divided on the possibility that Canada might acquire more conventionally-powered submarines now that plans for a nuclear fleet have been scrapped. A total of 50.1% are 'strongly' or 'somewhat' in favour of the conventional option compared with 49.9% who oppose it. Asked about

government priorities over the next five years, 23.6% of the latest sample want foreign aid cuts rather than defence cuts but 21.2% prefer the opposite. Some 29% want even reductions in both defence and foreign aid compared with 9.7% who feel the cuts should have been smaller.

Although the poll was done in October and November, well before Prime Minister Mulroney's stated commitment in Brussels to keeping Canadian Forces in Europe as part of NATO, the response suggests Mr. Mulroney is on the right track on this aspect of Canadian defence policy. Participation in NATO is 'very important' to 52.4% of the respondents compared with 33.7% for whom it is only 'somewhat' so and only 13.9% for whom it is 'not very' important. The size of the current Canadian commitment is 'just about right' for 58.6% while 16.9% feel it should be more, 10.4% feel it should be less and 14.1% want total withdrawal.

### Tightening the Pursestrings: Aid Budget in Jeopardy?

The \$1.8 billion trimmed from Canada's Official Development Assistance (ODA) budget over the next 5 years does not 'reflect the wishes of a broad majority of Canadians who support a leading role for their country in fostering international development,' the North-South Institute (NSI) says. Yet the latest Canadian Institute for International Peace and Security poll indicates that a sizable number of Canadians may feel differently, possibly paving the way for further cuts as the government bears down on deficit reduction.

The NSI says if Ottawa is contemplating further aid cutbacks this year, it would be 'an abdication of Canada's commitment to developing countries.' While it sympathizes with the need to curb the deficit, it feels 'strongly that this should not be attempted at the cost of hurting our assistance to developing countries and jeopardizing prospects of moves toward a co-operative global community.' Furthermore, it considers the \$1.8-billion reduction as 'apparent abandonment' of the goal agreed to by

the government.

A possible signal of the government's intent is the pre-Christmas announcement that \$1.4 billion will be trimmed from overall spending in the next several years, beginning with \$460 million in 1990-91. There is a two-year extension of the 2% annual cap on departments' operating and maintenance budgets. There also is a reduction of \$70 million in funds for External Affairs and International Trade, starting with \$10 million in fiscal 1990-91 and rising in \$5-million increments through the following three years. 'Cuts will be considered in all areas of operations,' Treasury Board says of EA&IT. It also plans 'a full review' of Canadian International Development Agency decentralization, including potential transfer of staff to the field. 'It is felt that savings may be achieved by reducing or regionalizing some specialized aid delivery functions.... Construction of new aid administration facilities will be deferred.'

Public opinion aside, any re-examination of Canada's aid commit-

ment must be done against the backdrop of the recent meeting in Paris of representatives of the World Bank, the International Monetary Fund, the UN Development Programme, and the Development Assistance Committee of the OECD. They agreed 'the essential conclusion of DAC's work ... in the 1990s' must be a break in 'the vicious circle of underdevelopment that links high population growth, poverty, malnutrition, illiteracy and environmental degradation.' This would require economic and development strategies that promote sustainable growth while facilitating broader participation by the populations of the affected countries. 'Developing countries themselves are ultimately responsible for their own development,' but aid remained essential within an international framework that fosters trade and investment.

'Developed and other economically advanced countries cannot live in isolated enclaves of prosperity,' the four bodies concurred.

## Canadian Report Card: Mixed Marks and a Look Ahead

The latest Organization for Economic Co-operation and Development survey of the Canadian economy lauds employment growth second to none among the major OECD members in 1988-89 and economic growth second only to Japan's. 'Both the rate of unemployment and capacity utilization reached levels considered to represent 'full resource utilization' in the course of 1988 and have exceeded them since.' However, the OECD proceeds from there to point out that there has been little additional progress in Canada's fight against inflation since the rapid post-recession reduction in 1983-84. In addition, the federal deficit remains excessive. 'Output growth was stimulated by buoyant domestic demand, especially gross fixed capital formation, entailing a continuing decline in the foreign balance', the Paris-based organization comments. 'Repercussions on the current account in 1988 were cushioned by a further improvement in the terms of trade and by large net transfer receipts related to immigration from Asia.'

On monetary policy, the OECD cites the progressive tightening and says that given the importance of preventing a resurgence of inflation and the crucial role of the Bank of Canada's credibility in attaining this goal, the tighter monetary policy is appropriate and generally well received by the money markets. 'Achievement of the officially-declared objective of price stability would require temporarily opening a gap between actual and potential output.... All else equal, successful pursuit of the price stability objective would imply a trend appreciation of the Canadian currency, to the extent that other countries were less successful in stabilizing their price levels, thereby maintaining the real effective value of the Canadian dollar.'

An unforeseen increase in debt interest payments brought a sharp deterioration in Ottawa's projected financial position for 1989-90. This puts in some jeopardy the government's fiscal consolidation goals for the medium term. But the last budget's moves to restrain discretionary spending and to boost revenues were expected to yield net increases of \$3.7 billion and \$7 billion in the current and 1990-91 fiscal years. The

OECD says these would seem 'necessary and sufficient' to put the consolidation programme back on track, consistent with the policy goals of stabilizing by the ratio of public debt to GDP and then reducing it. The latest budget measures were admittedly more reliant on revenue enhancement than on spending restraint, but the OECD nevertheless expects that most of the medium-term gains will come from the restraint.

Within days of the Canadian survey's release, the OECD issued its 46th Economic Outlook for all 24 member countries, affording a look at Canada within an overall context. Growth in output over the next two years is expected to slide below Canada's potential and unemployment is expected to be stable. Gross Domestic Product (GDP) at market prices is forecast at 2.0% in 1990 — a comedown from last year's preliminary 2.9% — before an anticipated modest recovery to 2.2% in 1991. The unemployment rate, which averaged 7.5% in 1989, is put at 7.6% and 8.0% in 1990 and 1991, respectively. 'The slowdown in the growth of domestic demand which became apparent in the second quarter of 1989 may persist until 1991. However, high employment levels, continuing strength of private non-residential investment, and the sustained expansion of world trade should underpin steady, albeit modest, rates of domestic output growth.'

The expected deceleration is attributed to a projected gradual decline in export volume growth, which is due mainly to declining United States demand, and to 'restrictive' domestic fiscal and monetary policies. The current external deficit of approximately 1.75% of GDP is expected to widen to nearly 3% by the end of 1991. 'Consumer-price increases are projected to decelerate somewhat in 1990', the OECD says. 'However, the impending implementation of the reform of indirect taxation will entail step increase in the CPI (Consumer Price Index) of slightly more than 2% in early 1991. It is crucially important that this increase in the price level not initiate a self-perpetuating price-wage spiral.' (It should be noted that this latest Survey, which was completed in mid-October, could not take into account unanticipated

shifts in the government's plans for the Goods and Services Tax, notably the retrenchment to 7% from the original 9% rate for the value-added tax.)

Overall economic growth in the OECD, a preliminary 3.6% in terms of real Gross National Product last year, is projected at 2.9% this year and in 1991. Growth in the United States, meanwhile, is expected to decelerate from 3.0% in 1989 to 2.3 this year before recovering slightly to 2.5 in 1991. Japan's deceleration is expected to continue steadily, from last year's 4.8% to 4.5 and then to 4.3. OECD's European members, which averaged 3.6% in 1989, are projected to turn in 2.8% this year and 2.7 in 1991. The West German outlook within that framework is for 3.2% growth this year and for 3.1 next year, a deceleration from last year's 4.3.

Canada's current account balance, having shown a \$14 billion deficit last year, is expected to repeat that before slipping to \$15 billion in 1991. The OECD as a whole, after an \$85.3-billion current account deficit in 1989, is facing deficits of \$72.3 billion and then \$71.4 billion. OECD Europe's 1989 surplus of \$6.1 billion is expected to rise to \$10.9 billion before retrenching to \$10.1 billion. West Germany's phenomenal surge to a \$60.9-billion surplus last year from 1988's \$48.5 billion is expected to decelerate, to \$70.8 billion and recover to \$75.7 billion. The U.S. can expect last year's \$121.5 billion deficit to improve to \$118.1 billion before declining to \$123.8 billion. Japan's surplus, having fallen from 1988's \$79.6 billion to \$60.8 billion last year, is put at \$61.1 billion before a surge next year to \$68.6 billion.

Economic activity in the OECD has been buoyant 'but it has generally stabilized or even receded marginally since late spring.' The Outlook acknowledges that the forces underlying the buoyancy prevailing since 1987 may reflect more substantial and longer-reaching structural changes than its forecasts indicate.

Copies of both publications may be ordered from OECD Publications, 2 rue Andre-Pascal, 75775 Paris CEDEX 16, France. The cover price on the Survey is 55 Francs and its catalogue number is 44945. Subscription to the biannual Outlook costs 2,100F without a reference supplement and 3,100 with it.

## Diplomatic Bouillabaisse Leaves a Bad Taste

Long-simmering fisheries disputes with the European Economic Community and the United States have come quickly to the boil with no indication that either side in each case is willing to yield in a situation where giving way has serious short-term repercussions for domestic fishing industries. The difficulty is that the long-term result may be no East Coast stocks for any country. The negotiating climate has been worsened by an EEC proposal for quotas that are more than three times as high as had been recommended by the Northwest Atlantic Fisheries Organization (NAFO) and a Canadian warship fired warning shots near an American fishing vessel.

Canadian concerns about the EEC's activities are underscored by widespread closures and layoffs in the domestic fishing industry because of increasingly small catches in the region at issue. The 12 countries in the EEC have rejected charges that their vessels over-fish and they refuse to heed Canada's claims about the dwindling stocks. Canada is technically vulnerable in that the alleged European depredation — notably by Spain and Portugal on the Grand Banks and the Flemish Cap — occurs outside the 200-mile offshore economic management zone. The NAFO had recommended a ceiling of some 15,377 tonnes in 1990 but the EEC has responded with a 56,250-tonne quota. Although the EEC's target last year was nearly 160,000 tonnes and its 1990 target could be seen as restraint, it should be noted that the EEC fleets fell far short of their 1989 goal and the proposal for this

year seems to be set at the maximum they expect to take. The EEC's case is weakened considerably by the fact that its rejections of Canadian arguments about the fish stocks are made with virtually the same breath in which they announced reduced quotas in the rest of the North Atlantic and in Norwegian and Greenland waters. 'The fishing industry across Europe is hurting and everyone is trying to minimize the impact on their own shores,' one British official admitted after a fractious EEC ministerial meeting in Brussels. The problem is that in trying to minimize the impact at home, they are maximizing the impact on Canada, and figures for the first nine months of 1989 suggest the effect is very real: total catches were down 9.3% from year-earlier levels.

The EEC decision elicited a surprisingly low-key and even fatalistic reaction from International Trade Minister John Crosbie who, as a Member of Parliament from Newfoundland, has an abiding personal interest in the fishing industry. 'Extremely disappointed' is how he described himself, adding that he had not really expected the EEC to restrict operations off Canada's East Coast. However, he says, 'we believe that with time they will come to see they must observe the NAFO quotas.' Prime Minister Mulroney, on the other hand, was justifiably vigorous in a letter to EEC President Jacques Delors. Mr. Mulroney avoided diplomatic nicety in calling the decision 'appalling' and he reminded Mr. Delors that Atlantic Canada is dependent on the East Coast fisheries. 'This decision will further damage fish stocks which are

already badly depleted as a result of over-fishing by members of the European Community outside our 200-mile economic zone', he said in the letter. '...I will want to discuss this with you in person at the earliest opportunity as a matter of the highest priority.' A telegram of protest also went to French President Francois Mitterand in his role as Chairman of the EEC.

As for the dispute with the U.S., the Department of National Defence said that the destroyer Saguenay, on fisheries patrol secondment last month, confronted a U.S. scallop dragger on the Canadian side of Georges Bank, one of the richest East Coast fisheries zones. When the American boat refused to heave-to, and after a series of hull-to-hull contacts that left the smaller vessel holed at the waterline, several shots were fired from automatic weapons on the destroyer and one was fired from its main deck gun. The U.S. boat managed to cross the international boundary and make it home to Massachusetts. Canada has issued more than a dozen outstanding warrants for American fishermen since 1984 but no extradition treaty covers fisheries violations.

The climate for negotiation with the U.S. has been soured somewhat by Washington's recent decision to ban imports of small Canadian lobsters at potential loss to Canadian producers of up to \$30 million. American lobstermen are prohibited by law from catching the small lobsters allowed their Canadian counterparts, but Canada nevertheless is challenging the ban as a violation of the Free Trade Agreement. It is worth recalling that the first panel set up under the auspices of the FTA to resolve a dispute involved fisheries issues. That five-member panel ruled last fall that Canadian landing requirements for West Coast salmon and herring contravened the General Agreement on Tariffs and Trade as well as the FTA. Although Canada hailed the finding as having 'accepted the legitimacy of Canada's ... use of these landing requirements to conserve and manage these important fisheries', it was left in the final analysis with no option but to permit the direct export of some unprocessed fish to assuage American concerns. The proposal is 20% of the catch but the Fisheries Council of British Columbia says that will not satisfy the Americans.

## A Curious Posture on Pacific Trade

At a conference in Canberra on Asia-Pacific Economic Co-operation, (APEC) International Trade Minister John Crosbie warned the delegates not to be too hasty in setting up a new regional economic organization because of the possibility it might alienate other countries. Nevertheless, they agreed to create the new body, which the member countries want to promote economic co-operation within the group, notably on issues such as international trade barriers. 'We're not suggesting that we don't think it's necessary that any institution be established immediately', Mr. Crosbie said at a news conference afterward. However, he added that 'the dangers of moving too quickly are that you can't bring everyone along.' The countries within the Association of South East Asian Nations are patently worried that the broader-based APEC group could undermine the smaller body's role in promoting political as well as economic co-operation. Mr. Crosbie said that they have 'different purposes and objectives, so it wouldn't necessarily be a good idea' to have APEC play a pivotal role in ASEAN.

## TRADE

### Agricultural Reform Under GATT: Parochialism Prevails

As a signatory to the General Agreement on Tariffs and Trade (GATT), as the United States' largest trading partner and as a member of the Cairns Group and the Organization for Economic Cooperation and Development (OECD), Canada is particularly well-placed — perhaps uniquely — to play a pivotal role in sorting out the tangled web that is agricultural trade today. Yet, as is the case with virtually all of the other participants in this lengthy and often acrimonious debate, parochial interests have tended to prevail over the global good.

International Trade Minister John Crosbie says talks with his counterparts from other countries at a meeting in Hakone, Japan, resulted in 'great progress' in bringing developing countries fully into the drive toward completion of the Uruguay Round. The atmosphere at Hakone prompted Mr. Crosbie to wax optimistic about the talks leading, eventually, to improved global trade and economic growth. The Round is scheduled to end with a meeting in Brussels in December, 1991, and while two more years might seem adequate, he is justifiably worried. 'We are not a world giant,' he points out. 'We have a giant exposure to the world trading system because a third of our Gross National Product comes from exports.' Apart from agricultural trade and subsidies, the outstanding issues of paramount concern to Canada include regulation of service industries, copyright and patent protection. 'The rhetoric is all good, including our own', Mr. Crosbie acknowledged. 'What remains to be seen is if there's any substance behind it.'

After Hakone, he reiterated the 'urgent need' to get on with the detailed and difficult negotiations on the unresolved concerns. He welcomes the EEC promise to release 'soon' its proposals for agricultural trade reform and an announcement by the U.S. that it would be tabling its position on farm subsidies and countervail. The farm subsidies have been a major irritant, with Canada drawn into a battle that pits the U.S. against many other countries, notably those in the EEC. He notes that at a meeting at GATT headquarters in Geneva last spring there was agreement that 'the long-term objective is to estab-

lish a fair and market-oriented agricultural trading system.' Although he concedes that 'trade distortions and restrictions cannot all be removed in this round', he insists that GATT had to 'make good on our common commitment to ... progress.'

Canada's bottom line comprises three main elements: subsidies and countervail, safeguards for its supply-management policies, and dispute-resolution. 'Results in these areas will not only determine the fate of the GATT, they will also determine our capacity to maintain a more predictable trading environment', Mr. Crosbie says. 'Canada has put forward a comprehensive proposal on subsidies and countervailing measures and we attach a high priority to achieving a major reform of the GATT rules.' The goal is universal rules that would alleviate the constant threat of countervail or unilateral determination of what constitutes fair government assistance. On the question of fairness, Mr. Crosbie said 'constraints on subsidies must be accompanied by equivalent constraints on the countervailing procedures. This must include some reasonable understandings on the conditions under which legitimate areas of government assistance for regional development and research and development, for example, should not be regarded as trade distorting.'

Mr. Crosbie went from Japan to Thailand for a meeting of the Cairns Group. The 14 countries put together a position paper that was tabled at GATT agricultural talks in Geneva. Considered a 'blueprint' for reform, the paper states that 'a competitive, efficient and market-responsive world agricultural system would serve the common long-term interest of developed and developing countries alike.' They recognized that non-trade concerns such as food security need to be considered but suggested that this need not impede reforms 'based on negotiated commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines.' They recommended general tariff reductions and said all measures not explicitly covered by GATT should be eliminated or made to conform with

new GATT rules. These would cover non-tariff barriers, import levies, waivers and other country-specific derogations.

Mr. Crosbie said all Canadian agriculture stands to benefit from increased trade that would come from a fairer regime. 'This will provide a solid basis for the expansion of Canadian agriculture exports.' But then an estimated 5,000 Quebec and Ontario farmers marched on Parliament Hill, protesting what they see as declining government support. Predominantly dairy, poultry and pork producers, they called for withdrawal from the Cairns Group and preservation of Canadian supply-management. They are concerned that the Geneva talks could lead to an open-door policy that could flood the domestic market with cheaper imports and damage or even destroy the dairy products and poultry industries. 'The talks have thrown everything up for grabs', commented a spokesman for the powerful Ontario Federation of Agriculture. Deputy Prime Minister Don Mazankowski, in his role as Agriculture Minister, told the demonstrators that while supply-management was preserved by the Free Trade Agreement with the U.S., Canada had to adapt. 'We cannot bury our heads in the sand.'

With that ringing in its negotiators ears, Canada then refused to lift import quotas on ice cream and yogurt, restrictions that have been condemned officially by a GATT panel. The panel had acted on a complaint by the U.S., which, having acceded bilaterally to Canada's supply-management concerns, opted for a multilateral end-run. The quotas protect Canada's \$7-billion dairy industry and Mr. Crosbie is adamant that they will remain in place until there is evidence of progress on the broader question of agricultural trade under the auspices of the GATT.

A Canadian proposal for wholesale reform of the anti-dumping rules within the GATT framework has been tabled at the current round of multilateral trade negotiations (MTN). 'Our experience with the existing GATT anti-dumping code has shown that we need clearer and more widely accepted interpretation and a more uniform application', Trade Minister John Crosbie says.

## STATISTICS

### International Trade

Canada had its first merchandise trade deficit in nearly 14 years in October as a surge in imports overwhelmed a marginal rise in exports. Seasonally adjusted on a balance of payments basis, it was \$420.9 million, the first red ink on the ledger since March, 1976. It left the surplus for the first 10 months of 1989 at \$3,987.5 million — down 52.3% from the same period of 1988. The value of exports in October was up 0.6% from September at \$11,398.5 million and the change was due largely to increased shipments of chemical products, plastics, metals, alloys, machinery and equipment, the effect of which was muted by declines in wheat and automotive products. October's imports rose 5.5% to \$11,819.4 million with the rise concentrated in motor vehicle parts as well as in aircraft, engines and spares, the effect of which was slightly offset by declines in beverages and truck imports. Here is a rounded breakdown in millions of dollars:

	OCTOBER			CUMULATIVE			Change from '88
	Exports	Imports	Balance	Exports	Imports	Balance	
<b>U.S.</b>	8,656.7	8,206.2	+450.6	87,098.6	78,016.2	+9,082.5	-2,523.1
<b>Japan</b>	563.0	736.1	-173.1	7,152.9	6,922.2	+230.7	+26.4
<b>U.K.</b>	267.8	391.6	+123.7	3,015.4	3,760.0	-744.6	+283.9
<b>other EEC</b>	628.6	878.7	-250.2	6,543.2	8,338.3	-1,795.1	+1,132.6
<b>other OECD</b>	348.6	367.3	-305.8	2,726.1	3,339.8	-613.7	-226.2
<b>all others</b>	933.8	1,239.5	-305.8	9,885.1	12,057.5	-2,172.4	-3,079.8
<b>TOTALS</b>	11,398.5	11,819.4	-420.9	116,421.3	112,433.9	+3,987.5	-4,386.2

### External Affairs Budget

Finance Department figures show that the External Affairs share of the federal purse continues to shrink, even before the recent trimming by Treasury Board covered elsewhere in this issue. Total spending in the latest month for which data are available, October, amounted to \$11,355,000,000, of which 1.89% was for the Department of External Affairs and related programmes. This compared with 2.47% of the \$10,734,000,000 in overall federal spending in October, 1988. The pattern is similar in a comparison of the cumulative figures for the first seven months of the 1989-90 fiscal year. Total spending to October 31 was \$76,744,000,000, of which 1.80% was for the External envelope. The year-earlier share was 2.10% of the overall \$70,284,000,000. Here is a rounded breakdown in thousands of dollars:

\*Abbreviations used refer to the following:

APF — Asia Pacific Foundation  
 CCC — Canadian Commercial Corp.  
 CIIPS — Canadian Institute for International Peace & Security  
 CIDA — Canadian International Development Agency  
 APF — Asia Pacific Foundation  
 EDC — Export Development Corp.  
 ICOD — International Centre for Ocean Development  
 IDRC — International Development Research Centre  
 IJC — International Joint Commission

	OCTOBER		F. Y. CUMULATIVE	
	1989	1988	1989/90	1988/89
<b>Interests abroad</b>				
Operating costs	57,230	59,302	354,899	311,403
Capital costs	5,928	11,556	33,704	27,187
Grants	6,578	5,808	60,964	55,676
Passport fund	147	1,595	448	1,926
APF*		500		500
World exhibitions	34	215	231	1,216
Sub-total	69,917	75,786	450,246	394,056
<b>CCC*</b>	676	3,542	7,193	7,556
<b>CIIPS*</b>	1,000		3,000	2,500
<b>CIDA*</b>				
Operating costs	10,351	7,415	51,726	49,627
Grants	110,872	177,770	806,320	960,307
Pymts to financial inst.			35,426	58,312
APF*				500
Sub-total	121,223	185,185	893,472	1,068,746
<b>EDC*</b>	11,466		31,188	
<b>ICOD*</b>	1,000	600	4,100	3,250
<b>IDRC*</b>	9,050		63,325	66,617
<b>IJC*</b>	316	837	2,635	2,462
<b>TOTALS</b>	214,648	265,950	1,455,159	1,545,187



# LAST WORD

## The Global Agenda: Balancing a Three-Legged Stool

Since World War II, three global challenges have been fundamental in determining relations between nations. One that constantly pervades our media imagery focuses on East-West superpower rivalries and tensions. Another, equally powerful, entails North-North commercial linkages: efforts by OECD countries to increase their mutual trade and investments and thereby their internal economic growth. The third is North-South development. The global agenda has rested, albeit precariously, on those three legs of security, commerce and development.

Their respective proponents vie with each other for resources. 'How much should we spend on armaments?' they ask. 'How much on stimulating our own GNP and that of our OECD partners? How much on Third World Development?' Invariably, development has emerged a poor third. As a consequence, the three-legged stool, inherently stable in the physical world, has become increasingly shaky in the geopolitical one.

The OECD countries are islands of affluence in a sea of southern poverty. The developing countries of Africa, Asia and Latin America have been plagued by a decade of economic regression, social deterioration and political instability. The 1980s has been a 'lost decade' throughout the Third world with per capita incomes falling below the levels of the 1970s and, in some cases, lower than those recorded in the darkest days of the depressed 1930s.

How to bring equilibrium into the international agenda? How to better balance the three legs of the stool? One way would be to transfer some of the resources saved by superpower detente toward international development. This not only would help to strengthen the socio-economic viability of three-quarters of the world's population, but also would be in our own self-interest in that it could increase our Third World trade and investment prospects. In the final analysis, we cannot co-exist indefinitely in a world where billions of people are, in the words of Franklin D. Roosevelt, 'ill-housed, ill-clad, ill-nourished.' That observation in his second inaugural address, on Jan. 20, 1937, applied only to the United States but has obvious global application today.

North Americans have been mesmerized during the past 45 years by geopolitics and economic growth. We have exalted consumerism and stood in awe of conflict resolution. These are natural reactions but should not be taken in isolation. Our Achilles heel has been a neglect of Third World development. From time to time, our consciousness is raised by powerful television clips of starving children, emaciated adults and ever-growing slums in Africa, Asia and Latin America. But quickly we turn away. We debate instead the pros and cons of closer economic linkages with the United States, Europe or the Pacific Rim. We are hypnotized by the current tumult in Eastern Europe and the Soviet Union and contemplate, happily, the prospect of superpower detente and declining military expenditures.

But what will we do with the dividends of detente? Instead of increasing our funding for the Canadian International Development Agency and the International Development Research Centre, we reduce them. We cut nuclear submarines and other military outlays but do not use the savings for Official Development Assistance. Our aid target as a percentage of GNP is falling rather than rising. We must realize that the global agenda during the 21st century will depend as much on the North-South dialogue as on East-West detente and North-North economic interdependence.

The third leg of our stool — the development one — must be shored up; not just by aid, important as that is, but by a new approach that combines policies of domestic structural adjustment with those of international economic co-operation. For the first time in nearly half a century, the global agenda is being radically revised in front of our very eyes. We must think afresh about the trinity of security, commerce and development. Both the U.S.-Soviet rapprochement and the reintegration of Eastern Europe merit our highest priority, as does our economic viability within the OECD community. But let us not lose sight of international development. The three-legged stool will remain wobbly until we reinvest our detente dividend and there is no better time than the present to start doing it.

—David H. Pollock is Professor of International Affairs at Carleton University, Ottawa and former Washington director of the UN Economic Commission for Latin America and the Caribbean.—

*International Perspectives* is a journal of independent opinion on world affairs published 12 times a year by Baxter Publishing. It takes no editorial position. The opinions expressed are those of the authors.

President: W. H. Baxter    Vice President: David McClung    Consultant: John Gellner    Editor: Edgar J. Dosman  
Associate Editor: Kenneth A. Pole    Production: Randy Stewart    Circulation: Guy Bolduc/Susan McAdam

Subscriptions In Canada: One year (twelve issues): \$70 Two years (twenty-four issues): \$110  
Three years (thirty-six issues): \$145 Single copy: \$7.00

Other Countries: Same as above, in US funds.

Additional charge for airmail delivery upon request.

Editorial and subscriptions: National Press Building, 150 Wellington Street, #302, Ottawa, ON, Canada K1P 5A4 Tel: (613) 238-2628 Fax: (613) 234-2452

Toronto address: 310 Dupont Street, Toronto, ON, Canada M5R 1V9

Tel: (416) 968-7252 Fax: (416) 968-2377 Telex: 065-28085

ISSN 0381-4874 Copyright © 1990 Second Class Mail Registration Number 4929

*International Perspectives* is indexed in the *Canadian Periodical Index*, *Current Content and PAIS Bulletin*, *ABC, POL SCI, Abstracts And America: History And Life*; in *Canadian Magazine Index* and is available on-line in the *Canadian Business & Current Affairs Database*.

### Notice to Subscriber/Agency

In 1989, *International Perspectives* published five issues. Volume XVIII, Number 1, 2, 3, 4 and 5. Volume XVIII, Number 6 was not published. All subscriptions affected by this deletion have been extended by one issue. The last issue for 1989 Volume XVIII (Number 5) was mailed December 15, 1989. Beginning January, 1990 *International Perspectives* has increased its frequency to 12 issues annually.