

Statement

Discours

Department of  
External  
Affairs



Ministère des  
Affaires  
extérieures

88/29

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NOTES FOR A STATEMENT BY THE  
RIGHT HONOURABLE JOE CLARK,  
SECRETARY OF STATE FOR EXTERNAL AFFAIRS,  
TO THE ORGANIZATION FOR ECONOMIC CO-OPERATION  
AND DEVELOPMENT (OECD) COUNCIL  
AT MINISTERIAL LEVEL

PARIS, FRANCE

May 18, 1988.

Secretary of State  
for  
External Affairs

Secrétaire d'État  
aux  
Affaires extérieures

Canada

Mr. Chairman,

We are living in "the best of times, and the worst of times", to paraphrase Charles Dickens. The quotation contains at least some truths that apply to the economic situation.

Our countries are enjoying sustained economic growth, surpassing forecasts of a few months ago. Yet our situation is fragile, and that of many non-OECD countries much more so.

The road ahead, especially regarding the problems of international trade imbalances and of international debt, will be difficult. Careful management is required. We must not forget that addressing these two issues will involve policy changes and cooperation by countries not represented at this table. I refer in particular to the newly industrializing and exporting economies of Asia, and the middle-income debtor countries.

The responsibility for managing the global economy is one that we in the OECD share with non-OECD countries, but the greater burden is ours. We are the primary engines of world economic activity. Our economic policy discussions, on international policy coordination, on debt, on trade, on structural adjustment and agricultural subsidies, have a disproportionate and immediate impact, for better or worse, on many other more burdened and vulnerable economies.

Given our responsibilities as leaders in global economic management, we might usefully review how we shape up, where we can take some satisfaction and where a stronger commitment to more vigorous action is required. Such a global perspective is important to us here at the OECD, and to Canada as we prepare to host the Toronto Economic Summit.

On economic growth, we can take satisfaction, albeit qualified. Six years after the last major recession, OECD countries are still generally experiencing moderate, steady economic expansion. Growth over the past year has, on average, been stronger than expected.

Inflation has been restrained. Unemployment rates have fallen markedly in North America, in Japan and in the United Kingdom, for example, although they remain high in some other countries.

The present economic situation may not be ideal. However, there is no doubt that this sustained non-inflationary economic growth creates a helpful climate for those developing countries now taking painful and courageous steps to reform their domestic economic policies. Economic growth and low inflation in OECD countries will help us to maintain a substantial and increased flow of external resources to developing countries. This flow is the key to their growth and development, without which our own growth will ultimately be hindered.

Yet if the short-term outlook is positive, we have less cause for optimism in other areas. The current growth environment is fragile mainly because of the uncertainty of the medium term outlook. So long as enormous trade and fiscal imbalances persist, they will be a potentially destabilizing factor for international securities and exchange markets. Volatility in these markets could in turn undermine the strategy to manage and ease the situation of the heavily-indebted developing countries, and rebound to damage our own prospects.

Under the Baker Plan important progress on debt has been made. Potential financial crises have been averted. The risk to the world financial system has been reduced as banks have taken steps to reinforce their financial position. Many of the most heavily indebted countries have undertaken major adjustment measures, a key step in strengthening their economies and returning to credit-worthiness.

If this successful approach is to continue, however, we must ensure that the World Bank and International Monetary Fund have resources adequate to their central role. The expansion of the IMF Structural Adjustment Facility last December was a very important step. Equally, speedy approval and subscription by all governments to the General Capital Increase for the World Bank is an essential element.

The widening of the "menu of options" for debtor countries and their commercial creditors must also be encouraged. We should not stand in the way of the

emergence of what amounts to a "second track" to the debt strategy, involving voluntary market-based innovative means of debt reduction.

Necessary for the promotion of continued economic growth is a strong commitment to liberalized and expanded trade. Here again there is scope for some optimism, in the ambitious Uruguay Round of multilateral trade negotiations now underway in Geneva. These talks are off to a good start. We must sustain this momentum throughout the hard bargaining to come, in order to bring the negotiations to a successful conclusion. These trade negotiations are also of critical importance to developing countries, particularly if the market-oriented policies for export expansion and growth which we are encouraging them to pursue are to have any success. We must ensure that they are given the tools to participate fully in the negotiations. We also have a major responsibility to take steps to meet their legitimate needs for greater, more secure access to OECD markets.

A strong and continued commitment by OECD countries to trade liberalization is urgently needed. Despite the encouraging global economic situation, protectionist pressures remain strong. As trade imbalances unwind, protectionism may become more attractive to those OECD countries moving increasingly into trade deficit as the current net importing countries such as the United States become net exporters. Should we fail to contain and defuse protectionism, we will all lose.

This is particularly true for the crisis in trade in agriculture. The "war of the treasuries" now being fought among the richest countries means rock-bottom world prices for many agricultural products. The dumping of these products in international markets is hurting many countries. Canada is not immune from the serious consequences of these practices. Prices for grains have in recent years fallen to their lowest levels since the 1930s. We have been forced to spend billions of dollars for special programs in 1986 and again this past year simply to keep Canadian producers in business. We are strongly committed to do our part to end excessive subsidization. The only viable option is a fundamental reform of the agricultural trading system as well as early relief measures consistent with the longer-term reform objectives. We must arrive at agreement on such an approach for the MTN Ministerial Meeting in Montreal in December.

The crisis in agriculture has also eroded efforts in many developing countries to undertake structural reforms to strengthen agricultural sectors and increase domestic food production. These are the very policies which we have been strongly urging their governments to follow to maximize their national economic potential and ease their debt-related problems.

The OECD Secretariat has played a leading role in documenting the costly and damaging effects of the subsidies by OECD countries which cause overproduction of agricultural products and distort world trade. The Organization has done important work in developing the concept of Producer Subsidy Equivalent (PSE). The PSE measures the value of public assistance to agriculture, and is generally accepted by most participants in the Uruguay Round as a useful tool in the negotiations. Canada's negotiators are working on refining an aggregate measure based on the OECD PSE concept which can serve to assist agreement on agricultural reform.

Certainly there will be costs, both economic and political, to such structural reforms in agriculture, but the costs will be much reduced if we all move in concert. And again, we must not lose sight of the damage such policies have inflicted. We have imposed on our own economies an enormously costly and inefficient mis-allocation of resources. Our policies have also had an exceedingly high cost for developing countries who can less afford the ill effects.

At last year's meeting, we OECD Ministers recognized the scope and urgency of the agricultural trade crisis. We strongly reaffirmed the need for concerted reform of agricultural policies, as spelled out in the Uruguay Round declaration. We must now take advantage of this meeting to build on last year's success and press forward. We must commit ourselves collectively to achieve agreement at the December 1988 Uruguay Round Mid-Term Review Conference, on both a long-term framework for agricultural reform and on short-term measures consistent with such a framework. Now is the time to take such a step, while our economies are growing. The world is watching, and expects progress.

On the multilateral trade negotiations more generally, we need to demonstrate clear progress at the Mid-Term Review Conference. Such progress will signal to the world our commitment to a well functioning,

liberalized trade system. Specifically, we should aim to reach agreements and implement early results where possible. In addition to our commitments on agriculture, Canada believes concrete early results and achievements will be possible in such areas as GATT institutional reform -- the functioning of the GATT system and the dispute settlement mechanism -- and on trade in tropical products and trade in services.

Liberalized trade and access to export markets can facilitate developing countries' economic progress. It can also provide the means to integrate them more closely into the international trading system, with its benefits and responsibilities. A case in point is that of the newly-industrializing countries of Asia. Canada welcomes the entry of these significant new players on the international economic scene. Theirs is the type of economic development success story that offers hope and encouragement to developing countries the world over. Canada also strongly supports the Secretary General's move to establish a Council working party which will look carefully at the question of how to encourage these countries to participate more closely in a mutually beneficial process of consultations on world economic issues.

These countries have a valuable and important role to play in the international economic community, not least in helping to reduce international trade imbalances and in providing a market for less developed countries. Certainly it is important that they assume responsibilities and disciplines of the international trading system commensurate with their level of development and stake in the world economy. But it is also important that our dialogue with them be initiated on the basis of mutual interest and mutual benefit. I firmly believe that the so-called "newly exporting countries"--Thailand, Malaysia, and Indonesia--should be included in any dialogue with the Asian newly-industrializing countries, both because of their rapidly expanding economies and exports, and because of the growing trend, already discernible, toward a broadening horizontal integration in the region. I intend to pursue the matter in my consultations this July in Bangkok with the Association of South East Asian Nations (ASEAN).

As I have said, our goal as OECD Ministers is to encourage these countries to participate more closely in consultations on world economic issues, and ultimately, to

join the community of industrialized countries, with the responsibilities and disciplines which that entails. But our approaches to them should, in my view, be measured and even circumspect. It is true that there are pressures to have these countries "adjust", "graduate", and shoulder their share of responsibility for global economic management and coordination. But we also must adjust, and adapt to new economic realities, and we will have to continue to do so as other countries achieve the same level of development. We are not likely to adjust to this new and for some of us rather uncomfortable situation overnight, and nor can we expect them to. But through a gradual process of increasing contacts and consultations on economic policy interests we will certainly be able to make progress toward our common goal, sustained global economic growth in the context of smoothly functioning economic and trading systems.

In pursuing this non-confrontational approach, Canada also strongly supports. In pursuing this non-confrontational approach, Canada also strongly supports the proposal to complement the OECD working party's study with an informal seminar between representatives of the newly industrializing countries, OECD members and several other Asian countries. The seminar is an important and concrete first step. In principle Canada is prepared to co-sponsor the seminar.

Clearly the OECD countries need to work closely with countries in all stages of development, as our economies and theirs are so closely linked. Debtor and creditor, exporter and importer, our interdependence is every day more in evidence as we all take on our shared responsibilities, as the OECD Convention states, "to contribute to sound economic expansion ... in the process of economic development".