



Statements and Speeches

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THE WESTERN ECONOMIC SUMMIT

A Speech by Mr. A.E. Gotlieb, Under-Secretary of State for External Affairs, to the Canadian Institute of International Affairs, Winnipeg, April 9, 1981

It is a pleasure to be with you today and to be able to reflect, in a congenial gathering of those with a serious interest in foreign policy, upon one of the more interesting diplomatic phenomena in the latter half of the Seventies, and now the early Eighties. I refer to the emergence of periodic meetings of the leaders of the most important economic partners among the developed, industrialized, mixed economy nations, the so-called Western Economic Summits.

Meetings at the Summit level have not always had a good press — witness Yalta. Or the Versailles negotiations after the First World War among Wilson, Lloyd George and Clemenceau. Even Moses had difficulty persuading those left behind of the wisdom he brought back from the Summit! Not a few leaders have reason to ponder the old Japanese saying that "there are two kinds of fools: those who have never climbed Mount Fuji, and those who have climbed it twice".*

After all, what court of appeal is there from a head of government? Who will review his decisions, revise his instructions?

Yet, beginning in 1975, at Rambouillet near Paris, there have been annual meetings of major Western leaders: 1976 in Puerto Rico, 1977 in London, 1978 in Bonn, 1979 in Tokyo, 1980 in Venice. As of the July 1981 meeting in Ottawa we will see the end of a cycle: each of the seven participating countries will have hosted one Summit. The U.S.A. and French Presidents, the German Chancellor, the Japanese, British and Italian Prime Ministers have participated from the outset, joined by the Canadian Prime Minister since Puerto Rico and the President of the European Commission since London.

These seven heads of state or government represent countries which together account for around half of world trade, for about four fifths of the industrial countries' and over half of the world's output. There is a considerable gap between the political/economic stature of the smallest Summit participant and that of any potential Organization for Economic Co-operation and Development (OECD) Summit aspirant. As for the presence of the Commission President, it must be remembered that the European Community member states have by treaty handed over to the central Community institutions certain important elements of their sovereignty, notably for trade policy as well as other aspects of economic policies.

In considering why the meetings began we need to go back to the situation in 1975. Two years after the Yom Kippur War and the ensuing fourfold increase (by December 1973) in oil prices by the Organization of Petroleum-Exporting Countries (OPEC), it was painfully evident that the industrialized countries had not coped well or cohe-

*With acknowledgements for this paragraph to Arthur Andrew, formerly a senior officer with External Affairs.

sively with the fall-out. They were confronting major and pressing economic problems (recession and unemployment, accompanied by inflation), many of which indeed originated before the oil shock, arising in part of the persistent current-account deficits of the United States. When the International Monetary Fund (IMF) Interim Committee in June 1975 failed to agree on how to approach major monetary issues (exchange rates, quotas, gold), the French President, elected to his seven-year term little more than a year earlier and himself a former finance minister, suggested a monetary summit on the ground that it was largely the floating exchange rates which were destabilizing the monetary system and thus causing the major economic problems.

Agenda for first meeting

After some hesitation, the other leaders accepted. They went to Rambouillet in November 1975, but only after agreement that the agenda provide for consideration of over-all economic policies, as well as monetary issues, and also look at North/South problems. The Summit was to take an over-all, policy-oriented, rather than narrowly technical, approach. The emphasis was on co-ordination: leaders intended to underline they were in command, were working together and would get their economies moving again. By concerting their economic policies and by mutual reinforcement and burden-sharing, it was thought that these key countries could assure and consolidate the recovery without additional inflation.

Although arising out of a specific situation, this development — the coming together for a Summit — served as a highly public recognition of the altered and more complex circumstances of the 1970s. In the Sixties or Fifties — and notably the Forties, which had seen the establishment of most of the principal international economic institutions — the U.S.A. was virtually unchallengeable in its supremacy in the non-Communist world, and far outdistanced the U.S.S.R. as well on most criteria of power. But by the early 1970s, no longer was there a solitary colossus bestriding the non-Communist world. President Nixon, in a variety of ways, had recognized the limits to U.S.A. power — economic, political and military — and altered U.S.A. commitments accordingly. The U.S.A. could no longer carry the whole burden alone and was moved to recognize other centres of strength. In particular, the Europeans and Japanese had to take on responsibilities for the functioning of the economic system, and be given a commensurate voice in the decision-making (an exercise in power-sharing of a sort to which I shall refer later in relation to the South).

1975 statistics

To take only a few economic measurements, at the time of the first Summit, gross national product for the United States was about \$1,500 billion, for the countries of the Community was some \$1,150 billion and for Japan was roughly \$485 billion (the Federal Republic of Germany was \$430 billion). The population of the United States was 215 million, the EC 260 million and Japan 110 million. U.S.A. exports were about \$100 billion, Japanese some \$55 billion, the FRG about \$90 billion and the EC as a whole approximately \$300 billion. Between 1950 and 1975 the U.S.A.'s share of world trade went from 15.3 per cent to 11.1 per cent, while the share of exports in U.S. GNP went from 3.5 per cent to 7.7 per cent; i.e. while its influence as a trader declined proportionately, U.S.A. dependence on trade grew. On the import side, this was of course dramatized from 1973 on by U.S.A. vulnerability to the uncertain oil supply and price situation.

But there were shifts going on as well between the West and other parts of the world. Soviet military power was relatively much greater than it had been, including notably in the field of nuclear weapons. The Sino-Soviet split worsened and China itself was beginning to play a more active part in the world. OPEC muscle had recently been demonstrated and the sudden transfer of wealth to oil producers, notably the few surplus countries (e.g. Saudi Arabia, Kuwait and the United Arab Emirates), can only be compared to the massive acquisition of gold by Spain in the sixteenth century. It gave rise to fears, not wholly substantiated, of a more generalized "commodity power" by raw materials' producers. The oil crisis, along with other factors, including commodity fears, gave impetus to recognition by Western leaders of the need to take North/South issues more seriously. Indeed, the Conference on International Economic Co-operation, involving 27 developed and developing countries, opened in Paris a week after the first Summit.

The leaders of the major Western economic powers accordingly felt constrained to consult together, to try to work together more closely – and to be seen to be doing so. At the same time, the leaders were careful to make clear they were not establishing a new institution. Indeed, and this was fundamental, they wanted to find a way of leapfrogging the national and international bureaucracies.

An analysis of the six Economic Summits as a series may give an erroneous impression of inevitable flow or progression from one to the next. A certain pattern does emerge, but I should emphasize that leaders did not plan from the start on a series of Summits but rather decided on holding them one at a time.

Rambouillet

At Rambouillet, the approach was largely short term and fairly specific, based on traditional analysis of the economic situation. The main success was the rapprochement between the United States and France on monetary questions, which paved the way for agreement at the International Monetary Fund Interim Committee in January 1976 on revised IMF articles, notably one which provided a legal basis for alternative exchange-rate regimes (e.g. fixed or floating) and called for more frequent consultations and exchanges on monetary issues. Other new articles agreed upon in January 1976 dealt with the role of gold, quotas and international liquidity; and a trust fund was established to subsidize borrowing by the poorest developing countries from the International Monetary Fund. Rambouillet also saw an agreement intended to slacken the export credit race and on a target (1977) to end the Multilateral Trade Negotiations (both overly optimistic as it turned out).

Puerto Rico

Six months later in Puerto Rico, buoyed by monetary successes and economic growth and with a U.S.A. election looming for President Ford, the leaders were able to sound thoroughly optimistic about their ability to deal with the joint economic problems of inflation and growth, although the disparity of approaches subsequently taken in Summit countries was seen in some quarters as belying the communiqué talk of co-ordination; and in fact growth soon dropped off again.

London

Indeed, at London a year later, the optimism was becoming a little forced and a recognition crept in of the need for collaboration in facing the major structural changes under way. Certain key countries were expected to act to pull the world

economy out of the doldrums (the Federal Republic of Germany and Japan were especially mentioned as "locomotive" powers — they were to pull the weaker economies into renewed growth). The leaders showed signs of a longer term view and spread their interests to propose a nuclear fuel cycle evaluation and to consider other matters.

Bonn

The Summit at Bonn witnessed an admission that the economic problems were indeed deep-seated and structural in character and required "sustained effort" over the long haul, if continued economic growth without increased inflation was to occur in the West. Leaders agreed on a comprehensive strategy, which was worked out and announced in some detail. It was noteworthy for applying to all Summit countries, not just the so-called "locomotives". Moreover, significantly, much more attention was devoted to energy at Bonn. Finally, the leaders gave a hard — and successful — push to the stagnating Multilateral Trade Negotiations.

Tokyo

Nineteen-seventy-nine saw a renewed increase in oil prices and led the leaders at their Tokyo Summit to devote much of their time, and communiqué, to spelling out what they would do to reduce oil consumption and imports (including individual targets), improve the oil market, foster conservation and move into other sources of energy.

Venice

Despite these moves in the right direction, however, OPEC countries nonetheless decided on further price increases. By Venice, in June 1980, Summit countries were inclined to express vigorously their exasperation with some members of OPEC and to announce a detailed, decade-long strategy to "break the link" between economic growth and oil consumption and to set targets for substitution of oil by other energy sources. They put in place a monitoring device to pursue this strategy. There was also, at Venice, a particular focus on the recycling problem because of the depressing effect, on the world economy as a whole and the less-developed countries (LDC) economies in particular, of the \$120 billion OPEC surplus (roughly \$50 billion from LDCs and \$70 billion from developed countries). Moreover, there was a significant focus on relationships with the developing countries, with the leaders commissioning their personal representatives to present them a year later with conclusions on this subject for consideration at Ottawa.

**Points
emerging**

If we stand back and look at the successive Summits, one is struck by a number of points:

— The main economic problems identified by the leaders as requiring their attention have largely been the same mix: low growth, inflation, unemployment, protectionist pressures, the many faces of energy, the North/South dialogue — even though the emphases have varied.

— There has been a growing appreciation of the degree of interdependence, both among developed countries, and as between them and other groups whether developing as a whole or OPEC in particular. This means that, given the degree of inter-penetration of our Western economies — in trade, in money markets, in investment to name only these — domestic policies in any major country have a growing effect on others and thus no one country can regulate its own economy alone.

Accordingly, problems, such as interest rates, economic stimulus or restraint, have to be tackled in concert by the Western countries together, although the appropriateness of individual measures will still vary by country. The increase in linkages of Summit countries with the oil producers has also been dramatic, whether it is in Western demand for oil and search for markets; or OPEC dependence on Western manufactured products and know-how, and OPEC need for secure and remunerative places to invest. Even with other developing countries, trade and capital links are now of great and growing importance for many Summit countries, and market prospects in certain newly industrializing countries are among the most promising anywhere.

— There has been a shift from the rather more short term, specific, relatively optimistic communiqués of the first few Summits, to the longer term, relatively realistic, indeed almost dogged mood in the later ones. Summit countries have in fact increasingly appreciated that the issues facing them cannot be dealt with quickly but will be around for some years, that we are in for a period of relatively low growth, high cost energy, high inflationary pressures, employment problems. And if one looks ahead to the end of the century — as leaders did at Venice — the prospects, without major policy changes in the meantime, are not encouraging.

— While Summits have thus increasingly looked longer term, they also have taken positions on the immediate or the specific, often in great detail. This is so, in significant part, because leaders have clearly perceived they need to have something concrete to show after such a major meeting. The public focus on these Summits has been greater each year (we may have between 1,500 and 2,000 press in Ottawa) and the expectations that are built up are increasingly difficult to satisfy.

— Yet, despite the fact that simply by meeting, the leaders have not brought magic solutions to their own and the world's ills — after all, these problems are still with us seven years later — the leaders are continuing to meet. They have found these gatherings a necessary, indeed central, element in their calendars. Summits have increasingly come to play a major role in the calendar of the whole international economic process.

— Not infrequently, the communiqués contain language, agreed to by all participants, that on the face of it could be embarrassing at home to one or more participants. The truth is that participants have not been unhappy with such wording. They need the mutual reinforcement to help them either to resist domestic pressures, e.g. for protectionism, or to move in desired directions such as on energy pricing for the United States.

— The Summits have gradually extended their purview beyond the basic economic issues looked at in Rambouillet. At Venice, for example, clearly political issues were raised and communiqués were issued about them, notably Afghanistan. Terrorism and hijacking have been other such issues, as were refugees at Venice.

— Although no continuing secretariat has been established, an innovative aspect of Summits has been the appointment of personal representatives of the leaders. The personal representatives have been charged with following-up on one Summit and

preparing for the next, with the lead taken by the next host country. Also, on energy in particular, follow-up arrangements have been made to monitor progress in implementing the Venice commitments. A recent report on Western consultations by four private policy research institutes underlines the need for systematic preparation of the Economic Summits and suggests consideration of a small permanent secretariat. I am dubious about this idea; it could tend to "bureaucratise" Summits. Leaders will themselves, properly and understandably, want to keep on top of preparations for and follow-up to the Summit and keep these closely under their own personal control.

Importance of communiqués

I realize that communiqué-reading is something of a specialized, not to say arcane, art. Not everyone spends Friday evenings curled up with a good communiqué or two. But, read with due care for the nature of the source, the Summit communiqués of the past six years well reflect the evolution of informed thinking — the shift from relative optimism to a greater recognition of the intractable long-term nature of the economic problems, a greater acceptance in principle of the reality of interdependence and structural issues. Leaders' policy of consultation has been reaffirmed and strengthened, closer personal relationships have developed among the heads and a readiness has emerged to move towards collective action in some areas. In the process, these communiqués have served to educate the public and thus, perhaps, have had some effect on the expectations of participants in the economy.

The Economic Summits, in fact, have so far proven to be a positive and helpful addition to the Western world's instruments for managing international problems. They are not seen by the leaders as a *directoire*, nor could they be. The Summit countries must continue to work with their closest friends and partners: in the European Economic Community; in international organizations such as the Organization for Economic Co-operation and Development and the International Energy Agency; and more broadly in the General Agreement on Tariffs and Trade, the International Monetary Fund, the International Bank for Reconstruction and Development — in all organizations that are the policy organs for co-ordinated action. But Summits have brought key leaders together in a group that is large enough to have a significant voice in the world yet small enough to make real discussion possible. These gatherings have filled a void. To some extent they have in fact been able to overcome the weight of modern bureaucracies, though there remains a concern about institutionalization of the process, a fear expressed particularly at Venice that the communiqué-drafting threatened to take over the discussions. I believe, in short, that the world would have been worse off if there had been no Economic Summits.

North/South dialogue

The Summits — although political gatherings in the broad sense — have up to now focused largely on economic issues. These economic issues remain; indeed the economic prospects immediately ahead are at least as sombre as those before any earlier Summits. Moreover, the North/South dialogue will be with us in some form or other for many years to come. For this reason, at Venice, leaders asked their personal representatives to make a special study of aid and other contributions to developing countries, in order to facilitate a solid and substantive discussion of the subject at this year's Summit in Ottawa. In doing so, they were conscious of the factors of interdependence between developed and developing countries to which I alluded a few

moments ago. They had in mind the very real interests of Summit countries in the economic health and well-being of developing countries — and also in the political stability of those countries in the interests of world peace and security. Of course, it remains true that for Summit countries there is an important humanitarian element in the contributions that they are prepared to make to the development of countries in the South, and this is as it should be, particularly with respect to the poorest developing countries.

Added to these issues, however, are a number of other difficult, and pressing, problems of a broadly political, or security nature.

As was recognized even before the new U.S. Administration took office, the East/West situation has deteriorated markedly in the last 15 months or so, notably since the Soviet invasion of Afghanistan. The Polish problem does nothing to lessen the tensions. These factors themselves serve to highlight the change in the military situation between East and West brought about over a period of years, particularly by Soviet increase of its military capacity. The weakening of *détente* has also had its effects on the North/South equation: there is in some quarters today an inclination perhaps to focus less on problems of the South and more on the East/West issues; and to see Southern problems increasingly through an East/West prism. Both sets of issues in fact are important in their own right and would need attention whether the other set existed or not. Clearly, of course, there are many significant linkages between the two and Summits offer one place where a large view can be taken and the broad problems addressed.

Though it should be noted that the U.S.S.R.'s actions have not invariably helped it *vis-à-vis* the non-aligned, it is also clear that the developed Western countries are far from united on where they should be going or what they should be doing to get there. There are differences of view on strategy and tactics, as came out only too clearly last year over Afghanistan. One could say that there is need for the Western countries to go through something of the same kind of process in these areas as they did during the 1970s on economic subjects; defining the issues, working to develop better understandings and common approaches among them, perhaps even taking steps ultimately towards joint objectives and actions.

But how? These are delicate issues, touching national sovereignty, deeply held convictions and ancient traditions. What is the right group? Should the Economic Summits be broadened to include political issues, as suggested in the report of the four institutes I mentioned earlier? Given the political and economic ramifications today of most major issues confronting heads of state or government, whether in the East/West or North/South context, might one not question whether the distinction between "economic" and "political" issues in a Summit context is still valid or realistic?

At a minimum, looking ahead, I find it hard to imagine that Summits in some form are not here for the foreseeable future — despite the risks and *caveats* outlined at the beginning of my remarks. Indeed, if Summits did not exist they would probably have to be invented; if they ceased, they would need to be recommenced. Only Summit

East/West
issues

Summits are
here to stay

leaders are in a position to take decisions on the web of issues facing the world today; they can cut across lines of authority within their own internal systems and make commitments to broad new directions, on the basis of co-ordinated objectives and some degree of equitable burden-sharing.

In this sense, individual leaders are right to submit themselves at Summits to pressures from their peers to move towards mutually shaped goals, to be prepared to "bend" their national "instructions" in favour of a broader interest, and thus to mediate the necessary change to their populations. Summits thus do have implications for domestic policy-making; but these implications are not always direct and the instruments to be used and techniques to be followed in carrying out understandings reached at Summits will necessarily depend on the circumstances of each country.

**Reaffirmation
of commit-
ments**

At this point, most of the Summit leaders are new (or re-elected). President Reagan, Prime Ministers Suzuki of Japan and Forlani of Italy have recently been chosen. President Thorn of the European Community Commission took office as of the beginning of 1981. German Chancellor Schmidt was re-elected last autumn and the French presidential elections take place this May. Because so many leaders are new and since most can look forward to a considerable term of office, it is timely, perhaps essential, for leaders to reflect together on what their objectives are, which are the key issues facing the West, how these issues should be grappled with. They need to reaffirm their commitment to consultations, to avoid — to the degree possible — unpleasant surprises or unilateralism — especially given the uncertain outlook in such areas as money and finance, trade and protectionism. They may at some point want to go beyond that to set some kind of joint program, as they have to a degree already on energy, perhaps even to consider possible further arrangements to implement it, recognizing of course that they will need also to continue to work with their partners in existing international fora.

Canadian view

For our part in Canada, we attach a good deal of value to the Western Summits. They should continue to be available to do the sort of things they do now. From my perspective, the Summits could usefully go further, and begin to take what I shall call the macro-political approach. Somehow, I believe, we in the industrial world need a manageable locus for concerting our views and objectives, our policies and activities, on problems facing the West from the outside, as well as for getting our act together among the industrialized democracies.

It is particularly important, from a Canadian point of view, that this kind of consultation and concertation be effectively taking place among our closest friends, since we are placed in a very delicate position in the case of persistent and major unresolved differences between, say, the United States and major European Community countries, or Japan, e.g. monetary problems in the early Seventies, trade issues, or views on the future of *détente* today. We are accordingly anxious to contribute in whatever ways we can to overcome the current differences on economic and political strategy among the industrialized democracies and believe the Summits could be helpful in doing so.

Ottawa Summit

I should underline that leaders should not be expected to reach definitive conclusions on these matters at Ottawa; indeed, by their nature, these issues are constantly before

governments and leaders will need to devote time to other subjects as well. Among the major items I anticipate at this stage for Ottawa's agenda are the tensions between fighting inflation and coping with the implications of the low- or no-growth scenarios foreseen for most Summit and other developed countries over coming months, with their significant social and political overtones particularly at a time of growing unemployment in many industrialized states. Recycling of petro dollars and the debt and balance-of-payments needs of a number of significant developing countries are other difficult current issues, although we would hope that the May meeting of the IMF Interim Committee in Gabon will be of help in further improving the system. We were in this connection very pleased at the recent agreement between the IMF and Saudi Arabia under which the latter has undertaken to provide some \$8 billion SDR (special drawing rights) in loans to the IMF while IMF members have agreed to a special increase in the Saudi quota in the IMF. This is a good example of recognizing the need to share power where it exists in the South.

The international trade situation is frankly worrying and Summit leaders may well want to reflect on how to avoid a destructive protectionist focus on bilateral irritants — of which we all confront unfortunately too many these days — and instead devote their attention to ways of renewing the impetus to expanding world trade in the interests of all participants. In addition, leaders will, of course, need to review progress on the comprehensive energy strategy they agreed on at Venice.

Also arising out of Venice, leaders will have before them the report on North/South issues to which I have alluded already. I expect this set of conclusions from the personal representatives will give rise to a substantive and thought-provoking discussion among leaders of Summit countries' relationships with developing countries, looking to the future and bearing in mind notably the Commonwealth heads of government meeting beginning in September in Melbourne and the North/South Summit planned for Mexico in late October. This is a subject to which we in Canada continue to attach very great importance.

One major priority area which comes to mind is energy assistance to developing countries; I think of the proposal for a United Nations conference this August on new and renewable sources of energy. I also think of the proposal for an International Bank for Reconstruction and Development (World Bank) energy affiliate. The oil bill of the developing countries as a whole has increased dramatically; at an estimated net \$50 billion in 1980 for all developing countries, it ate up an estimated 20 per cent of their export earnings from goods and services, compared to 12 per cent in 1978 — an increase of 66 per cent in two years. To take two individual cases: Turkey spent an estimated 83 per cent of its 1980 export earnings from goods and services on oil imports and India 78 per cent of goods' exports earnings to pay its \$7 billion 1980 estimated oil-import bill. The World Bank has calculated that by 1990, the proposed energy affiliate could have the effect of shaving the projected oil-import bill by U.S. \$25-\$30 billion in 1980 dollar terms — money that could go to economic development including needed imports from industrialized countries.

Food requirements are another major problem today at a time when grain supplies are once again getting tight and prices are rising, to the benefit of producers but to the

distress of the poorest in developing countries. Indeed, given the stock situation, production prospects and changes in demand patterns in the middle-income developing countries, in the World Bank it is felt that there could be a serious food crisis in the next few years if, for example, there were two bad harvests in North America. Over time, the only real solution is to reverse the declining ability of developing countries to feed themselves, to find ways greatly to increase world-wide production.

Although only a symptom of broader malaise, the plight of refugees in many parts of the developing world is a source of instability and a legitimate claim on the conscience of mankind; Summit countries cannot avoid reaffirming the leadership they have provided on this subject in recent years.

Conclusion

In conclusion, it is clear that the principle focus in the Western Summits will undoubtedly remain on the major economic issues confronting them and the rest of the world including the complex of issues known as the North/South dialogue. But political and economic issues do not exist in watertight compartments. I cannot imagine leaders, who in their everyday work move easily from one issue to another and endeavour to see the relationship among those issues whether economic or political, artificially compartmentalizing their work in a Summit context. At the same time, an overly "political" approach raises issues such as whether the group is the right one for the problem under consideration and may cause overlap with other bodies. Moreover, Summit leaders have clearly indicated that there are a number of basic problems in our economies, such as inflation, energy, trade, on which they must focus. Yet they are conscious that the major political issues facing the West, and particularly but not only the over-all relationship between East and West, cannot be divorced from questions of economic health and prosperity. The lack of consensus on such important political problems can weaken the West and, as evidenced at Venice, no other forum provides quite the same perspective for broad consideration of such subjects.

If these Economic Summits to date have been able to avoid some of the major potential pitfalls and weaknesses of some other Summit meetings, it may be in part because they have not been institutionalized or set up a permanent secretariat. They have remained flexible and informal and responsive in large part to the evolving requirements of the heads of state and government. To the extent to which these leaders wish to make a more useful and cohesive instrument of Summits, they risk becoming a court of last resort, a forum to which problems are passed up from below and that is seen as a place for decision-making on more and more specific items. It is our hope that Ottawa will make its contribution to finding the fine line between over-institutionalization on the one hand and only general discussion on the other so that Western leaders can make the most of this new diplomatic phenomenon, in the interests of their own countries and the rest of the world.

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