INTERNATIONAL PERSPECTIVES

CANADA AND THE WORLD

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NOTE TO READERS: Our pages are numbered sequentially from the start of the year to facilitate production of a cross-referenced index that will accompany December's issue.

The Debt Crisis: A New Ice Age Looms

The 1980s ended in a mood of euphoria as the glaciated communist regimes of Eastern Europe melted after decades of political and economic failure under the chilling legacy of Stalinism, their oligarchies and dictatorships calving like icebergs from a glacier. But as perestroika emerged in the mid-1980s to cause the gradual meltdown of resistance to change, the Third World remained locked in the frozen grip of sovereign debt. Josef Stalin's legacy of the 1930s and '40s may indeed be melting under the onslaught of change in Eastern Europe, but the fiscal legacy of the 1970s and '80s remains frozen for the underdeveloped and developing 'South'.

As much as the debt legacy has immense implications for the less developed countries (LDCs), Canadians also need to remember the unresolved 'debt crisis' has real implications for themselves, as taxpayers and as exporters of goods and services. For the debtor nations, the legacy is awesome, with the LDCs holding a combined debt of some $1.2 trillion! The cost of servicing these staggering obligations has had a pronounced effect on living standards in the debtor countries in the last decade; they fell by an average 10% in Latin America and 25% in Africa. This has immediate implications for Canadian companies as the export market demand shrinks. The broader implication is that credit from the world's commercial banks, so necessary to turn around the economic slide, is simply not forthcoming — now or in the foreseeable future.

Some of the industrialized world's political and economic leaders feel that the 'blame' for the mess lies principally with the LDCs, which are perceived as profligate, corrupt and generally ill-governed. This is true to some extent, but our own financial institutions also can be faulted; their greed for profits driven by the sudden influx of petro-dollars deposited by the surge of world oil prices in the '70s.

In the heyday of the '70s, the developed world's banks extended funds to the Third World, either as sovereign or 'semi-sovereign' debt, at rates comparable to commercial rates within their own domestic economies. But the loans to the LDCs were, to a considerable extent, not made for development that had any hope of generating returns sufficient to service those interest rates. Rather, much of the debt was established to finance much needed infrastructure in still underdeveloped societies. Quite reasonable projects were undertaken but not financed with the commercial rates. It should be recalled that much of North America's infrastructure was financed at below commercial levels, through low-interest municipal, railway and utility bonds and similar debt instruments.

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Debt Crisis . . . continued from page 1

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The ensuing crisis hurts both sides. Apportioning blame after the fact is patently counterproductive, although it undoubtedly would be refreshing if the developed world accepted more openly its role in the genesis of the crisis. For Canadians, the current manner in which sovereign debt of defaulting countries is held by our banks and regulated by the Inspector-General of Banks leaves us with a loss/loss situation. As sovereign debt has proven to be uncollectible — even though it is guaranteed by governments and their agencies including the financial institutions — our banks have been required to write down significantly the book value they place on such debt.

The Bank of Montreal has been the most exposed with $4.65 billion in LDC debt and a loss provision of $2.78 billion. The respective numbers are $4.2 billion/$2.95 billion for The Royal Bank of Canada; $4.1 billion/$2.6 billion for The Bank of Nova Scotia; $1.17 billion/$1.17 billion (excluding Mexico) for the Canadian Imperial Bank of Commerce; and $1.2 billion/$732 million for the National Bank of Canada. The Toronto-Dominion Bank has sold all but $200 million of its LDC debt on the secondary markets with a loss provision at 80% of that remaining exposure. Those provisions have been taken directly from the banks' income statements and, therefore, have reduced their income tax liability. These provisions evidently are completely appropriate but they are an obvious cost to Ottawa and its taxpayers. *Result: loss number 1, reduced government revenues.*

But the loss provisions made by Canadian banks have not meant a write-off of the liability due from LDC debtors, only a provision against it; the nominal value is maintained for the purpose of calculating interest outstanding. Our banks continue to demand full payment of interest, to be applied against the nominal value of the debt, with the predictable result that the LDCs are unable to service the debt. Hence, they remain in default even after several reschedulings, and in a hopeless situation as interest is calculated on interest upon a principal which has no 'real' value in an interbank marketplace that trades daily in LDC debt at huge discounts from face value. (Shearson Lehman Hutton reports recent market prices of LDC debt at 36-37% of face value for Venezuela, 3-6% for Peru, and 45-47% for Yugoslavia.) *Result: loss number 2, a debtor still in default.*

For Canadians concerned about maintaining job opportunities and a vibrant domestic industrial base, the third loss is possibly the most serious. Because of the ongoing defaults by LDCs, lines of credit for such countries are, quite understandably, severely restricted, effectively non-existent or, at best, limited to short terms (30 days) for small amounts. But for Canadian exporters, buyers in LDCs often require much longer terms of credit prior to payment (180, 270 and 350 days, or even longer). The logic to this is that the buyer wants as much time as possible to use the goods, such as industrial machinery, to create profit that would finance the purchase. Often the buyer finds that its domestic bank will insist on an extended credit term to help the bank's own foreign currency reserves. For the Canadian supplier, on the other hand, this demand for extended credit can be deadly because its bank here will not accept anything more than a short-term line of credit for the buyer's ban. *Result: loss number 3, the exporter cannot finance the sale, loses the contract and Canada suffers more unemployment.*

And so we all move into the 1990s very much affected, even in relatively prosperous Canada, by a global debt crisis that is like a glacier freezing relations between the developed world and the LDCs — seemingly immutable and obviously mutually unproductive.

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VIENNA — Gen. John de Chastelain, the Chief of Defence Staff, has acknowledged that the presence of 7,000 Canadian troops in Europe is more political than military. Although a meeting with 22 of his counterparts from the other NATO countries as well as the Warsaw Pact nations last was behind closed doors, a text of the General's remarks was made public. 'Numerically, our forces in Europe are less significant than the political message of their being there', he said. However, 'as ... an erstwhile commander of our Brigade Group in the Federal Republic of Germany, you will understand when I say that militarily our Europe-based forces are far from insignificant. That said, and as an aside, I would note that for both alliance reasons and for purely selfish national reasons, Canada has much to offer and much to gain by its military presence in Europe.... It gives an extra dimension to our bilateral relationship on the North American continent' and justifies 'a place at the table' at NATO headquarters in Brussels and in Vienna, the Austrian capital being the centre of East-West non-nuclear armed forces reduction talks.

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OTTAWA — Creation of a Centre for Canadian-Soviet Studies at Carleton University is being underwritten by a $285,000 grant from the Toronto-based Canadian Donner Foundation. Among other things, the grant will fund academics' trips to the Soviet Union and the hiring of a research co-ordinator, according to Prof. Larry Black, head of the university's Institute for Soviet and East European Studies. An initial project for the centre will be a bibliography of what Prof. Black says is 'just about everything the Soviets write about us.'

BUCHAREST — Canada's ambassador to Romania, Saul Grey, has opened diplomatic relations with the National Salvation Front (NSF), the movement that was instrumental in bringing down Nicolae Ceausescu's dictatorship. Unlike other countries, Canada recognizes states rather than administrations, so no formal diplomatic recognition of the new regime was necessary. 'Reports from our embassy ... as well as news reports, give us some cause for optimism', Mr. Clark said in Ottawa of the ongoing developments in Romania. 'We hope this means that democratic values, including due process, will soon prevail as Romania emerges from a revolutionary condition to a more stable situation.'

OTTAWA — Most of the Canadian Forces personnel deployed to Namibia as part of a multinational peacekeeping group in anticipation of the country's recent elections are back in Canada. 'It is most encouraging to see a mission completed on time and within budget', National Defence Minister Bill McKnight commented as he greeted the logistics personnel who were assigned to the United Nations Transition Assistance Group (UNTAG). Stable political conditions in the aftermath of the election permitted the start of a phased withdrawal of military personnel before UNTAG's mandate expired in March. Nearly 500 Canadian troops served in two rotations with the Canadian contingent, peaking at 260. Only a couple of dozen Canadian Forces personnel and 100 members of the Royal Canadian Mounted Police are staying on to the end of next month.

LONDON — Petro-Canada Chairman Bill Hopper has been named to the 13-member international advisory board that will guide the new Centre for Global Energy established by Sheikh Ahmed Zaki Yamani, the former Saudi Arabian oil minister. Canada has resisted suggestions that it become involved in the Organization of Petroleum Exporting Countries, but Sheikh Yamani's new group is seen as walking a politically safe if challenging line. It is expected to bridge the institutional gap between OPEC and the UN's International Energy Agency by promoting study of medium and long-term developments in the world markets. 'International cooperation between multinational companies, the consuming countries' governments and OPEC producers, particularly in the Gulf, is essential and should be fostered by all means possible,' a spokesman for the Sheikh said at the Centre's mid-January inauguration. The first self-assigned task of the new body is an assessment of developments in Eastern Europe and their implications for the global energy balance.

TORONTO — 'Canada will need to look increasingly to offshore markets for export growth and opportunities ... as global imbalances diminish in the future and as the United States' demand for imports slows,' according to the latest annual review from the C.D. Howe Institute. 'An aggressive trade policy should help, by gaining ... increased and secure access to those markets. In so doing, it will lay a more certain foundation on which to meet future challenges.' Copies of the review, Getting It Right, are available from bookstores that normally handle government publications.

OTTAWA — Canadians should see more of how MPs conduct their business on a day-to-day basis if recommendations by a House of Commons committee are adopted. The committee is proposing not only that TV cameras be permitted in committee hearings but also that there should be fewer restrictions on how the Commons itself is shown on the parliamentary channels available on cable. 'The public has a right to see and understand how its elected representatives work and how its laws are passed', says committee chairman Chuck Cook (PC—North Vancouver, B.C.). Current coverage is limited to a tight focus on the MP who is speaking at any given time, a process that advocates of a more open approach say robs the coverage of much of its vitality. Although Commons coverage is now routine after blazing the trail in western democracies, cameras are still banned from committees apart from a couple of isolated experiments, but the committee proposes that two existing hearing rooms should be permanently wired for broadcast and that cameras should be permitted into all hearings unless specifically excluded by the committee.

OTTAWA — The federal government has set up a joint committee with the private sector to advise the government on how to tackle money laundering related to the narcotics trade. Chaired by Minister of State (Finance) Gilles Loiselle, it will 'assess existing measures and ... look at new ideas for increasing the effectiveness of our fight.' Canada has anti-laundering legislation under the umbrella of a package of Criminal Code and related amendments passed by Parliament as Bill C-61 in September, 1988. It also is participating in an international task force established at last year's Economic Summit. Officials from the departments of Finance, External Affairs, Solicitor-General as well as the RCMP and the Superintendent of Financial Institutions are involved in the committee along with senior representatives of the banking and other financial institutions and the insurance and investment sectors.

SAN JUAN — The Feb. 2 official opening by Trade Minister Crosbie of a new satellite trade office in the Puerto Rican capital was the third in two weeks as Canada stepped up its campaign to broaden export opportunities. He also opened one Jan. 25 in San Diego and then another in Miami Jan. 31. They bring to 27 the total number of Canadian trade offices in the United States and its territories.

External Affairs and Trade Begins Internal Review

It is more than two months since Treasury Board President Robert de Cotret unveiled a broad 'expenditure reduction initiative' that included $70 million off the External Affairs and International Trade Canada (EAITC) budget over the next four years. In response, the department launched a review of its operations. This review is based on work already begun as part of its long-range corporate strategy, Preparing for the 1990s: The Management Challenge, which emphasized three vital elements — relevant programmes and services, excellence in management, and leadership. A summary provided by EAITC says current initiatives should ensure that short-term measures will fit into a longer-term strategic plan. All areas are being looked at in a search for options and approaches to programme and service delivery that are at once practical and creative.

Seven initiatives are targetted for completion by June 1: (a) a review of headquarters organization; (b) a special review of operations at the largest missions, principally Washington and London; (c) studies of how the delivery of individual programmes and services can be updated to deal with the environment of the 1990s, including a look at alternate delivery mechanisms and the potential for cost recovery; (d) a review of the department's administrative functions, structure and processes; (e) preparing recommendations on what should be the nature of Canada's operations abroad in the 1990s; (f) a separate examination of certain personnel and related policies; and (g) a cabinet-ordered review of the level of grants and contributions.

'Because the department recognizes that this type of fundamental examination must be a collaborative effort to be successful, special efforts are being made to reach out to staff at all levels for their involvement and input into the process,' the summary states. 'Working groups are under way throughout the department, focus groups with employees are planned, suggestions are being sought from all employees here and abroad and special incentives are being introduced.' Incentives might seem excessive in that staff essentially would only be doing their jobs but a spokesman explains that the extra inducement is designed to encourage participation by employees who otherwise might not come forward with constructive ideas.

The focus for the next three months or so will be what is described as 'a reshaping of the department of enhanced relevance and effectiveness' with the objective of leaving it ready and able 'to meet the demands of a lean and challenging decade ahead.'

An Increasingly Urgent Need to Redefine 'Security'

In recent decades, the word security has been used in terms of preventing World War III by justifying huge investments in nuclear and conventional arms. Powerful economies incurred large deficits while global social and environmental problems went virtually unattended.

Today we see old threats disappearing and new ones emerging: global warming, waste disposal, drought and famine, and nuclear plant accidents. Although we continue to perceive an 'enemy' out there, disguised as another nation or as a different political system, this perception is gradually being replaced by realization of the emerging threat posed by human attitudes and activities in the environment.

We have begun to ask ourselves questions unthinkable by all but a few years ago. What good are military alliances at a time when the atmosphere is being eroded and our lakes and rivers contaminated? What good is protection by a Strategic Defense Initiative if it we can't protect ourselves against acid rain? Is it real or false security we pursue through our arms budgets?

Are we ready to ask ourselves 'when are we and other nations going to stop polluting across each others' borders?' It causes immense damage while destabilizing national and continental economies. It's worth recalling the declaration by the 1972 Conference on the Human Environment in Stockholm in which the signatory nations conceded each other's 'sovereign right to exploit their own resources pursuant to their own environmental policies' only to stress that the right carries with it 'the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other states.'

Having been ready for decades for Russian tanks to roll through Western Europe, having spent incomprehensibly on weaponry, having witnessed pollution of previously pristine regions such as the Arctic, we must recognize the real threat facing us. The prospect of Mutually Assured Destruction is as much environmental now as it is military. To meet it, we must give top priority to policies encompassing environmentally sustainable economic growth while stopping desertification, soil erosion, water contamination, and depletion of forests, grasslands and fisheries. Remedial action is not without cost but the Worldwatch Institute puts the bill for reforestation, protecting topsoil, raising energy efficiency and developing renewable energy sources at about $774 billion over the next 10 years — just under 10% of total global military spending.

Among other things, we need to urge the United Nations Security Council to give precedence to environmental security and we should promote Article 2 of the NATO Treaty, the 'Canadian' article emphasizing the importance of non-military collaboration within NATO and with non-members. In asking others to help put our global house in order, Canada must modify its own economic policies to serve ecology and not vice versa. Spending priorities need to be readdressed and government redesigned to make all departments responsible for the environment. Furthermore, the role of the Canadian International Development Agency and the country's role in the international financial and economic institutions should be re-examined.

Former Environment Minister Charles Caccia is Liberal MP for the Toronto constituency of Davenport.

THE NINETIES

Experience of Recent Decades Warrants Caution . . .

'As a landmark year in modern history, 1989 will ... surely rank with 1789, the year of the French Revolution.'

This is how the Canadian Institute for International Peace and Security introduces its latest annual report as it focuses on three main topics: the arms race, domestic defence policy, and regional conflict. 'We want to believe that this 'peace' is real and enduring', it continues, 'yet millennia of human experience and recent decades of history counsel caution.'

On the question of the arms race, the CIIPS acknowledges over-riding concern about 'dangerous instability in an environment of major arms reductions.' This results from the continuing political upheaval that has been developing daily, almost hourly at times, in Eastern Europe. The longer-term view includes the 'delicate' issue of German reunification and its effect not only on the rest of Europe but also the rest of the world. As for the 'building down' of the North Atlantic Treaty Organization and the Warsaw Pact, 'there is still a long way to go.' Nevertheless the CIIPS urges the West to 'reciprocate and encourage every realistic disarmament measure' taken by the Soviet Union and its allies.

On the whole, the federally-funded body, which is based in Ottawa, comes across as cautiously optimistic when it proposes that 'other countries must also be drawn into the improved international climate emanating from Europe.' Particularly important is the need to improve relations between the Soviets and Japan and the CIIPS suggests that 'Canada is well placed to pursue this special dialogue.'

Having made that observation, the CIIPS then points out that there is lingering concern about the fate of hardware as the superpowers disarm. 'A possible unintended consequence ... is the danger that demobilized weaponry and military equipment, if not destroyed, will become available for sales and transfer to armies and armed groups in other parts of the world', the CIIPS cautions. 'Similarly, unless the military production capabilities of countries in East and West are dismantled or decisively cut back, they will have even greater incentives than in the past to direct their products to other markets.'

On the question of Canadian defence policy, the CIIPS says that it is clear, in light of the last budget's evisceration of the 1987 Defence White Paper, that another comprehensive review 'and basic rethinking' of domestic policy is crucial. The 'extraordinary' challenge is to make decision that would give defence planners 'reasonably clear and stable directions and credible assurance that they will be equipped to carry out the tasks assigned to them.'

Citing its own public opinion poll (summarized on Page 7 of the previous issue of International Perspectives), the CIIPS points out that Canadians are still supportive of the concept of 'prudent defence' and of co-operation with their allies and that an 'in-depth public debate of policy needs and options' is essential. 'There is a widespread expectation that the defence allocation, which was not actually reduced in the 1989 budget, could be singled out again (with official development assistance) in 1990 when the few 'discretionary' categories of federal spending will once more be vulnerable to Draconian spending cuts.

The second and even more important reason for a re-thinking of this country's defence policy is found in the dramatic evolution of East-West relations and the prospects for equally dramatic change in Canadian military 'threat perceptions' and responsibilities.' The CIIPS goes on to reject as 'totally unrealistic' any move by Canada to proceed with a major defence acquisition such as new battle tanks for deployment with NATO in Europe.

Given what it says is the 'practically assured' success of talks on strategic missile and conventional forces reductions, the CIIPS challenges the legitimacy of continuing Cruise missile testing, which resumed over Northern Canada late last month (see Signposts). It argues that flight-testing of unarmed air-launched missiles by the United States Air Force 'has lost some of its political immediacy' because of the arms reductions and the generally improved East-West relations. 'The majority of Canadians who were uncertain and divided during previous national debates over Cruise missile testing would clearly be much more difficult to convince of the need and legitimacy of further modernization.' That said, 'Canada has an urgent and direct interest in seeing Cruise missiles (particularly the sea-launched variety) included in East-West arms control and reduction negotiations. This concern is shared by NATO as a whole but progress is blocked by the dogmatic resistance of the U.S. Navy which has also, so far, blocked all other attempts at naval arms control. There is no reason why Canada should accept and be expected to co-operate indefinitely in a situation which is detrimental to its own security interests.'

On the increasingly troublesome issue of regional conflict and its frighteningly obvious potential for escalation, the CIIPS says that fascination with European events has tended to distract world attention from this no less important arena. 'The toll of conflicts in other regions ... has been constantly and frequently horrific, with civilians being indiscriminate or often even selected targets, large regions being laid waste, and their inhabitants swept up in the wretched tide of refugees that has become a flood in the Horn of Africa, Angola and Mozambique, in Indochina, Afghanistan and Central America.' It decries the 'atrocious' war between Iran and Iraq that saw the global taboo on chemical weapons broken and laments the 'agonized anarchy' of Lebanon and the 'still explosive' Arab-Israeli situation that is now in its fifth decade. 'The billions of people whose countries are not members of NATO or the Warsaw Pact are deeply conscious that they have been held as powerless hostages to the threat of global nuclear annihilation because of the hostility between these two blocks,' it says. 'Leaders and peoples in Asia, Africa and Latin America will welcome the easing of the global threat (and) will watch to see if the thawing of East-West relations and the reduction of superpower competition in their own regions will lead to more constructive attention to their problems or, on the other hand, to even greater marginalization of the Third World.'

Copies of the report may be requested from the Institute at 360 Albert Street, Suite 900, Ottawa K1R 7X7; telephone (613) 990-1593 or Fax (613) 563-0894.

. . . About the Potential Problems on the Road Ahead

'The near-desperate economic state and depressed social conditions of many countries' prompts the North-South Institute to call this decade 'the Nervous Nineties.' A draft of the research body's latest annual Review & Outlook highlights, among other things, foreign debt, aid, women's rights, the Organization of American States (OAS) and Southern Africa. 'There are plenty of problems along the road', comments the independent NSI's Executive-Director, Maureen O'Neil.

The document cites the grievous problems that are arising in Latin America as governments try to come to grips with foreign debt. A graphic example was the fact that more than 300 people were killed in Venezuela last year as they protested against an austerity programme sanctioned by the International Monetary Fund. 'Instead of improving their prospects, existing approaches seemed to be making debtor countries worse off,' the NSI says. The United States, for one, responds with rescheduling and debt-equity swaps, but the effectiveness of these initiatives clearly is being undermined by lender discounting as more countries default. Thus, the IMF has virtually no option but to put a genuine debt-relief programme into effect, especially where individual countries are demonstrably willing to deal with their woes.

'The fundamental dilemma now ... is how to persuade banks to agree to debt reduction on a voluntary basis', the NSI says. 'To sugar-coat the pill, financial guarantees were provided by the international financial institutions, but there is only enough money to provide such guarantees to a few debtor countries.' Ms. O'Neil says that Washington has advised American banks to 'look at some of the creative options open to them', but she is nonetheless skeptical that such advice would be welcomed by Canadian banks. The NSI points out that with few lenders apart from the World Bank and the IMF providing fresh capital, 'each dollar they put into guaranteeing old debt is a dollar less to finance badly-needed investment or imports.'

Official Development Assistance suffered the deepest cuts in the 1989 budget which was tabled last April by Finance Minister Michael Wilson. Forecasts for the 1990 budget vary — from total restoration of the cuts, to further reductions of as much as 10%. Ms. O'Neil takes limited comfort from a suggestion by External Affairs Minister Joe Clark that he wants to rebuild Canada's commitment. 'Mr. Clark is going to have trouble selling what he wants to sell around the budget table.' Faced with a question about the use of food aid as a lever, to get recipient countries to change policies that are perceived by donors as unworkable, Ms. O'Neil replies that 'virtually all' industrialized countries are trying to compel Third World change. 'There is greater conditionally attached' to all aid. Echoing the CIIPS (see page 6), the NSI says that Eastern Europe has 'distracted' the West from concerns about the Third World, where the problems are 'longer term and indeed larger.' Asked about special assistance packages put together for countries such as Poland and Hungary and how Ottawa should prioritize its commitments if forced to choose between the East Bloc and the Third World, she replies that 'the government has no choice but to respond to both of them.'

On women's rights, the NSI says that although an institutional framework has been built in the decade since the United Nations Convention for the Elimination of Discrimination Against Women was signed, progress in implementing real change has slowed. Some countries refuse to ratify the convention or impose restrictions on sections they consider inappropriate. 'Many concerned observers remark that, other than internal leverage by well-organized women's groups, there is little pressure on politicians and civil servants to live up to the convention or to enact any domestic legislation to improve the lot of women', the NSI says. 'It is time to evaluate what progress has been made, especially as countries face times of austerity.'

Canada's recent decision to join the OAS as a full member, after decades as an official observer, divided Canadians more evenly than few other foreign policy initiatives, the NSI says. 'We share the positive view. Latin America has changed greatly since the United States used the OAS to give its own hemispheric designs a multilateral coating, as in its 1965 occupation of the Dominican Republic or in its isolation of Cuba. In the 1980s, some 10 countries have moved from dictatorships to democracy.' When it is suggested some critics see Canada continuing to 'parrot' the U.S., Ms. O'Neil replies that there already are signs of a more independent posture. She refers to Canada's official condemnation of the sacking of the Nicaraguan ambassador's residence by U.S. troops during the Panama invasion. 'We seem to have recovered our senses somewhat.' However, she adds, the criticism that Canada's financial commitment to the OAS — which is some $6 million in this first year of full membership — is inadequate is 'very valid.'

As far as Southern Africa is concerned, Namibia is called 'perhaps the single undeniably bright spot' in that part of the continent, now that a constitution is nearing completion in the aftermath of free UN-supervised elections and that complete independence from South Africa is expected in March. 'But what of South Africa itself?' the NSI asks. There have been dramatic changes 'on the surface' but it notes that 'repression is far from ended'. Although 800 high-profile prisoners were released in October, at least 800 more remain incarcerated, hundreds of detainees are under rigourous restriction orders and there were more political trials during the latter half of 1989 than ever before. Notwithstanding this and the re-emergence of the power struggle between the army and the police, the NSI acknowledges 'movement', much of it precipitated by the international pressures making themselves felt. 'It is not too soon now to foresee and to plan for the post-apartheid era', the NSI says. 'South Africa will be the main 'engine of growth' for the whole region.'

Copies of The Nervous Nineties: Uncertainties Cloud Decade for Third World, should be available in either official language by the third week of February. The cost will be $7.50 and the NSI is at 55 Murray Street, Suite 200, Ottawa K1N 5M3; telephone (613) 236-3535 or Fax (613) 237-7435.

TRADE

Too Early to Tell Whether Free Trade Will be a Success

About all that the federal government is able to do as far as the first anniversary of its Free Trade Agreement with the United States is concerned is to try to reassure Canadians that 'implementation ... is proceeding in an orderly fashion.' That's courtesy of a Department of External Affairs analysis issued by International Trade Minister John Crosbie. The country's largest chartered bank, The Royal Bank of Canada feels much the same way, but one of the FTA's principal architects warns that as a combination of factors put the brakes on the U.S. economy, Canada could be thrown through the windshield. 'The politics of American trade are miserable at the best of times', observes Gordon Ritchie, who was Deputy Chief Negotiator through the FTA discussions and who now is an Ottawa-based consultant. 'In a recession they are positively vicious.'

Mr. Crosbie stresses that it is 'too early yet for any objective observer to make a definitive judgment of its economic impact' of the FTA. While he declines to attribute it to the FTA, he says there was a net increase of 193,000 jobs in Canada since the agreement went into effect at the beginning of 1989. The government's report on the FTA was released a day after The Royal Bank of Canada stated that the first year 'appears to have been positive for business capital spending, industry restructuring and exports.' The bank's economists also caution that it is too early in the 10-year phase-in of the FTA for a definitive assessment, but they do say the FTA 'has not led to any major or dramatic dislocations in the Canadian economy.'

Treasury Board President Robert de Cotret joins Mr. Crosbie in defending the FTA as 'an indispensable tool for Canada's prosperity' and cites the formal dispute resolution mechanism that has been put in place and which is beginning to come into play, albeit with mixed results. Asked whether the ongoing sectoral disputes — which the Trade Minister attributes mainly to protectionist lobbies within Congress — were a bellwether of future difficulties, Mr. de Cotret replies that there always have been sectoral disputes between Canada and the United States. He points out that the current disputes involve only about 1% of the total two-way trade of some $250 billion and that the pre-FTA regime did not provide for satisfactory resolution of disputes. 'I can't tell you that the new ... system is perfect, that we are going to win each case,' the Treasury Board President says, 'but now we can defend our cause.'

In the External Affairs report, which is bolstered by an analysis prepared for the department by Informetrica Limited, the government says that just as the FTA is 'a long-term initiative ... the economic benefits which will accrue are also long term.' It points out that only a small proportion of proposed tariff reductions are in place and that preparatory work continues in the reduction of non-tariff barriers such as government procurement rules, temporary entry, services and agricultural technology. 'Not surprisingly, expert opinion within the federal government, the Economic Council of Canada and private think-tanks conclude that discernible and substantial FTA effects are still several years away.' As for the spate of recent allegations that job layoffs and plant closures in Canada can be blamed on the FTA, the Informetrica report concludes that 'lags in availability of reliable data, difficulties in isolating FTA from other effects on the economy, and the uncertain nature of results provided by models of behaviour all point to great difficulties in developing any systematic evaluation.'

The Royal Bank report, which takes up the entire issue of its latest monthly *Econoscope*, looks at more than two dozen industries as well as the main economic indicators in arriving at what it emphasizes is a preliminary assessment of the FTA's main effects. 'The impact of free trade with the United States cannot be measured simply by counting the number of plant closures and openings', comments Alex Thomson, vice-president and deputy chief economist for the bank. 'Only by studying the ongoing and cumulative effects of the agreement from the dual perspectives of individual industries and the broad indicators for the economy as a whole can government, business and labour appropriately adjust to a free trade environment.'

As for the bank's report itself, it says that the effects of the FTA so far have been overshadowed by other forces, including a cyclical deceleration of the Canadian economy, high interest rates and a relatively strong Canadian dollar that is the result of investment inflows. It also echoes the government lines that the FTA should result in more secure access to American markets for key primary industries and that the Canadian manufacturing sector is particularly well poised to benefit from this access as well as from the phase-out of tariff barriers and the harmonization of technical standards in many industries.

There apparently is little evidence that the FTA has affected the Canadian service industries so far, but the bank says that competitiveness is the key to success, regardless of the sector involved. 'Canadian economic policies and business cycle dynamics remain the fundamental determinants of Canada's competitive position and the recent news on this front has not been encouraging', it says. 'The sharp appreciation of the Canadian dollar in the past three years and the widening gap between Canadian and U.S. labour costs have hindered many Canadian exporters in many markets abroad.... However, the cause of Canada's deteriorating competitive position has very little to do with the trade agreement. Canada's current weak competitive position reflects developments that were under way well before the implementation of the FTA.'

Notwithstanding the government and Royal Bank positions on plant closures and layoffs in Canada, Mr. Ritchie suggests in his own analysis that it is an issue the government must address. 'As the economy slides into a recession over the next year or two [Editor's note: there are conflicting opinions on the prospect of recession], there will be an increasing cacophony of announcements of layoffs, plant closings and economic hardship', he predicts. 'Inevitably this will be portrayed as directly attributable' to the FTA. However, he argues, high interest rates, the dollar and the federal government's spending and taxation policies will have more of a short-term economic impact on the economy than the FTA will.

ECONOMY

R&D Slippage Troublesome for the High-Tech Sector

Last year evidently was a good one for investment in research and development but the Conference Board of Canada worries that the business community's uncertainty about the economy could lead to a gradual decline in crucial R&D. There is concern too at the Economic Council of Canada, where researchers say this country's competitive position in high-technology trade is 'weak on several scores' and requires immediate corrective action.

The independent Conference Board says R&D spending growth should decelerate this year, barely keeping pace with inflation. Furthermore, 'in the medium term (through to 1994), growth is expected to deteriorate further.' The projections are based on a survey of 170 member corporations, 153 of which were either involved in, or purchased, R&D services. Only 48.3% felt it was a 'good time' to expand R&D, a drop from 52% in a year-earlier survey. Some 19.5% felt it was a 'bad time' for expansion, up from 18%. The proportion that was unsure rose to 32.2% from 29.7%. Services and technology-intensive manufacturing companies remained the most optimistic with 62.5 and 53.3%, respectively, feeling that it was a good time to invest in R&D. Also, medium-sized and very large corporations were more optimistic than others: 59.6% and 48.3%, respectively.

Last year's climate was due to several factors, including federal Patent Act amendments protecting developers of proprietary pharmaceuticals against 'generic' copies. There also were enhanced incentives in Ontario and Quebec. 'The foremost reason for the positive 1989 spending is the continued confidence of Canadian business in the strength of the Canadian economy', the Board says. 'This factor was greatly reinforced by a growing awareness of the need to maintain global competitiveness.... When asked how significant development was for a company's competitiveness, 93% ... replied that it was important.' Even so, R&D spending over the next five years is expected to slide 'significantly' with average growth declining in real terms as sectors fail to offset inflation. Industry, Science and Technology Minister Harvie Andre laments the evident trend, saying R&D is an obvious target when the economy is not as healthy as the corporate sector might anticipate. 'Our view is that Canadian industry doesn't do enough research now', he says. 'Research and development is discretionary and so when companies are tightening their belts, they frequently do cut there.'

Government policies are highlighted by the Board as a primary concern and this is echoed in the government-funded ECC's analysis of Canada's high-technology sector. Working with Statistics Canada's &World Trade Data Base, ECC researchers Sunder Magun and Someshwar Rao say the current climate 'demands ... a major review' of Canada's science and technology policies. They made their findings public at a meeting in Quebec City of the Canadian Economics Association. 'Striking proof ... is offered by Canada's significant losses on world markets and its persistent trade deficits', according to a summary issued by the EEC. The researchers are particularly disturbed by the 'dramatic' decline in Canada's share of the United States market as well as its 'very low' penetration of the newly-industrialized countries (NICs) around the Pacific Rim.

'Canada's share of exports of high-technology products in its total manufactured exports is lower than for any other industrialized country', the summary says. It rose to only 14% from 11% between 1971 and 1986, 'indicating relatively little change in Canada's export capability over a 15-year period when both markets and competitors have changed rapidly.' Over the same period, Canada's share of the global high-tech market shrunk to 2.6% from 3.5, which the summary describes as 'a meagre share' of a market worth some $330 billion annually. In contrast, Japan's share rose to more than doubled to 17% over that period while the share of the Asian NICs mushroomed to more than 9% from 1.5. 'Canada's decline ... is not confined to a few product areas, but has affected the entire range of high-technology goods', the researchers say. This includes the sectors in which Canada has clearly established expertise, such as aircraft, telecommunications and data-processing.

Inquiries about the Conference Board's report, R&D Outlook 1990: Current Environment, should be addressed to Ranga Chad, Director of the organization's International Business Research Centre, 255 Smyth Road, Ottawa K1H 8M7, telephone (613) 526-3280, Telex 053-3333 or Fax (613) 526-4857. The EEC summary is available from its Publications Division, Post Office Box 527, Ottawa K1P 5V6.

Canada-Japan Financial Markets

Canadian and Japanese financial institutions are reassessing their long-term strategies and product lines in an effort to build on opportunities arising from the growth in business between the two countries. 'Canadian financial institutions in Japan are concentrating on the investment banking, treasury operations and investment advisory services, rather than corporate banking services,' the Conference Board of Canada comments in a report prepared by its Financial Services Research Programme. 'The banks and their affiliated securities dealers are rationalizing and integrating their investment banking operations.' Their ability to capitalize fully on the situation has been curbed by the regulated separation of banking and securities, but the Board says some securities dealers are exploring the opportunities for upgraded operations.

It also points out that Japanese entry into the Canadian market has been typically non-aggressive. 'Their experience in the Canadian markets has been characterized by stable growth and effective diversification .... The Canada-U.S. Free Trade Agreement is seen by several Japanese institutions as an important factor behind their positioning ... within the North American continent.'

Copies of The Canadian and Japanese Financial Services Industries: Opportunities and Prospects from Mutual Access may be ordered from the Board at 255 Smyth Road, Ottawa K1H 8M7; telephone (613) 526-3280; Telex 053-333; Fax (613) 526-4857.

Mexico: Renewed Interest in a Stronger Relationship

The 7th meeting Canada-Mexico Joint Ministerial Committee, produced a routine official communiqué in which the two governments catalogued bilateral and multilateral issues. Noteworthy, however, was the unprecedented involvement of no fewer than 10 Canadian ministers and 7 of their Mexican counterparts, the home team captained by External Affairs Minister Joe Clark and the visitors by Foreign Relations Secretary Fernando Solana (see box). 'This reflects the importance attached by both countries to strengthening further their ... relations based on similar views of world and regional affairs, and common interests through geographic and cultural linkages,' the communiqué stated. The meeting also was a workup to Prime Minister Mulroney's March 15-18 visit to Mexico at the invitation of President Carlos Salinas de Gortari.

If external appearances were bland, discussion behind closed doors at the Jan. 22-23 meeting was anything but, especially about the Organization of American States. In briefing beforehand, Canadian officials said this country's endorsement of the United States' invasion of Panama was not contentious despite Mexico's criticism. It was not, as one put it, 'an issue between us' and Mr. Clark and Señor Solana would focus more on the question of 'where do we go from here?' Afterward, the Mexican minister said discussion of Panama was 'open and frank', the diplomatic equivalent of fisticuffs. Mexico's concerns about Canada apparently were assuaged by our denunciation of the seizure and search of the Nicaraguan ambassador's residence by U.S. troops during the invasion. Señor Solana said there is 'great potential' for a higher Canadian profile in Latin America. As far as Mexico itself is concerned, he said 'we need more and more political relations' because of the paucity to date of discussion of what should be common policy.

On the more substantive issues of trade and economics, Señor Solana said before the meeting that recent Mexican initiatives to relax restrictions on foreign investment, coupled with legislated protection for investors, should boost the current inflow, which has averaged some $3 billion (U.S.) annually. The legislation essentially eliminates government review of foreign investments of less than $100 million as long as they meet criteria that include permanent job creation. Mexico is looking for $5 billion in new investment by 1994. 'The new Mexican legislation now offers foreign investors important safeguards,' Señor Solana said. 'We would like to see our Canadian friends take advantage of them.' He left Ottawa apparently impressed with the 'great potential' for an enhanced relationship with Canada.

Two-way trade amounted to $1.8 billion in 1988, the latest year for which complete figures are available, but it was skewed $800 million in Mexico's favour and Canadian officials said 'we would certainly like to see a better balance.' If the issue of a North American common market was discussed, it was only peripheral; it seemed to have dwindled to a nadir after Ronald Reagan took it to a short-lived zenith with his public musings in the runup to his first bid for the U.S. Presidency in 1980. Canada went into the talks insisting, as one official put it, that 'it simply is not realistic to contemplate that option.' Nevertheless, there seems to be a resurgence of interest despite the fact that the threat of American dominance is as real for Mexicans as it is for Canadians. Notwithstanding deeply-rooted emotional antipathy south of the line stretching from Tijuana to Matamoros, it is Mexico City's own initiatives that are responsible. The policies that have opened up the country to major investors for the first time in decades actually have prompted some U.S. trade officials to talk openly again about the prospects for a trade agreement similar to the one signed with Canada. While they welcome the investment, especially from non-U.S. sources such as Japan and Canada, officials shy away publicly from talk of free trade. Manuel Suarez-Mier, minister for economic affairs at the Mexican embassy in Washington, dismissed such talk as speculative. 'We're still trying to catch our breath,' he said of the aftermath of the new legislative initiatives.

Those initiatives, apart from the investment commitments, are having an equally important secondary effect: growing confidence in the foreign financial community that Mexico is serious about its commitments and that it only makes sense to ease the pressure from outstanding loans that an unhealthy Mexican economy simply could not withstand. The Solana delegation's visit to Ottawa coincided with an announcement from Mexico City that a new umbrella agreement with 450 banks will ease the country's debt burden by an annual average of $3.8 billion (U.S.) through to 1994. The banks chose from three refinancing options applicable to $48 billion in medium- and long-term debt. Representing 49% of total debt exposure, they chose rate reduction bonds. Payment reduction under the agreement averages $2.2 billion annually through 1992 and $1.5 billion after that. New loans would provide an additional $1.5 billion in 1990-92. Although no details were provided, two Canadian banks are part of the group, one choosing to reduce the interest on its outstanding loans, the other having chosen a combination of lower rates and a write-off against principal.

Apart from Señor Solana, the other Secretaries in the visiting delegation were: Pedro Aspe (Treasury and Public Credit), Jaime Serra (Commerce and Industrial Development), Carlos Hank Gonzalez (Agriculture and Water Resources), Patricio Chirinos (Urban Development and Ecology), Pedro Joaquin Coldwell (Tourism), Enrique Alvarez del Castillo (Attorney General). The other Canadian ministers were: John Crosbie (International Trade), Don Mazankowski (Agriculture), Michael Wilson (Finance), Frank Oberle (Forestry), Tom Hockin (Small Businesses and Tourism), Doug Lewis (Justice and Attorney General), Pierre Blais (Solicitor-General), Lucien Bouchard (Environment) and John McDermid (Privatization and Regulatory Affairs). The respective ambassadors, Alfredo Phillips and David Windfield, also participated.

International Trade

After October yielded Canada's first merchandise trade deficit in nearly 14 years, a nosedive in automotive imports was the principal factor behind a reversal in November. Seasonally adjusted on a balance of payments basis, the preliminary Statistics Canada figures, subject to revision, show a surplus of $679.0 million in the latest month. It left the surplus for the first 11 months of 1989 at $4,699.8 million — down 49.0% from the same period of 1988. Export value in November was up 0.5% from October at $11,525.6 million, the change was due largely to increased wheat, automobiles and aircraft shipments that were undercut slightly by a drop in precious metals exports. November's imports dropped 8.3%, the sharpest in 17 months, to $10,846.7 million. Half the drop occurred in the automotive sector, mainly in cars and parts. Here is a rounded breakdown in millions of dollars:

	NOVEMBER Exports	Imports	Balance	CUMULATIVE Exports	Imports	Balance	Change from '88
U.S.	8,485.6	7,505.0	+980.6	95,590.6	85,534.2	+10,056.3	-2,726.2
Japan	701.8	663.1	+38.6	7,825.6	7,585.9	+240.5	−40.4
U.K.	254.8	406.9	−152.1	3,269.6	4,196.3	−926.7	+164.9
other EEC	669.4	759.5	-90.1	7,210.1	9,103.3	-1,893.2	+1,242.2
other OECD	350.7	372.2	-21.5	3,086.0	3,715.8	-629.8	-145.7
all others	1,063.4	1,139.9	-76.5	11,001.9	13,149.3	-2,147.4	-3,011.2
					)	+4,699.8	-4,516.4

breakdown in thousands of dollars:

		8	F. Y. CUMULATIVE 1989/90	1988/89
		5	405,663	366,648
		31	41,619	34,068
		26	64,124	60,702
		00	580	−226
		—	—	500
		41	279	1,357
		93	512,265	463,049
		70	9,263	8,826
		50	3,000	3,250
		97	60,302	58,604
		25	919,050	1,109,032
Pymts to financial inst.	—	8,876	35,426	67,188
APF*	—	—	—	500
Sub-total	121,306	166,578	1,014,778	1,235,324
EDC*	10,880	—	42,068	—
ICOD*	600	700	4,700	3,950
IDRC*	9,050	9,516	72,375	76,133
IJC*	314	283	2,949	2,745
OVERALL TOTALS	206,239	248,090	1,661,398	1,793,277

*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

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dorsement of the United States' i
of Panama was not contentious
Mexico's criticism. It was not, as
it, 'an issue between us' and M
and Señor Solana would focus
the question of 'where do we
here?' Afterward, the Mexican
said discussion of Panama wa
and frank', the diplomatic equiv
fisticuffs. Mexico's concerns
Canada apparently were assua
our denunciation of the seiz
search of the Nicaraguan amba
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sion. Señor Solana said there is 'great potential' for a higher Canadian profile in Latin America. As far as Mexico itself is concerned, he said 'we need more and more political relations' because of the paucity to date of discussion of what should be common policy.

On the more substantive issues of trade and economics, Señor Solana said before the meeting that recent Mexican initiatives to relax restrictions on foreign investment, coupled with legislated protection for investors, should boost the current inflow, which has averaged some $3 billion (U.S.) annually. The legislation essentially eliminates government review of foreign investments of less than $100 million as long as they meet criteria that include permanent job crea-

plate that option.' Nevertheless, there seems to be a resurgence of interest despite the fact that the threat of American dominance is as real for Mexicans as it is for Canadians. Notwithstanding deeply-rooted emotional antipathy south of the line stretching from Tijuana to Matamoros, it is Mexico City's own initiatives that are responsible. The policies that have opened up the country to major investors for the first time in decades actually have prompted some U.S. trade officials to talk openly again about the prospects for a trade agreement similar to the one signed with Canada. While they welcome the investment, especially from non-U.S. sources such as Japan and Canada, officials shy away publicly from talk of free trade. Manuel

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Apart from Señor Solana,
were: Pedro Aspe (Treasury an
dustrial Development), Carlos Hank Gonzalez (Agriculture and Water Resources), Patricio Chirinos (Urban Development and Ecology), Pedro Joaquin Coldwell (Tourism), Enrique Alvarez del Castillo (Attorney General). The other Canadian ministers were: John Crosbie (International Trade), Don Mazankowski (Agriculture), Michael Wilson (Finance), Frank Oberle (Forestry), Tom Hockin (Small Businesses and Tourism), Doug Lewis (Justice and Attorney General), Pierre Blais (Solicitor-General), Lucien Bouchard (Environment) and John McDermid (Privatization and Regulatory Affairs). The respective ambassadors, Alfredo Phillips and David Windfield, also participated.

ages $2.2 billion annually through 1992 and $1.5 billion after that. New loans would provide an additional $1.5 billion in 1990-92. Although no details were provided, two Canadian banks are part of the group, one choosing to reduce the interest on its outstanding loans, the other having chosen a combination of lower rates and a write-off against principal.

International Trade

After October yielded Canada's first merchandise trade deficit in nearly 14 years, a nosedive in automotive imports was the principal factor behind a reversal in November. Seasonally adjusted on a balance of payments basis, the preliminary Statistics Canada figures, subject to revision, show a surplus of $679.0 million in the latest month. It left the surplus for the first 11 months of 1989 at $4,699.8 million — down 49.0% from the same period of 1988. Export value in November was up 0.5% from October at $11,525.6 million, the change was due largely to increased wheat, automobiles and aircraft shipments that were undercut slightly by a drop in precious metals exports. November's imports dropped 8.3%, the sharpest in 17 months, to $10,846.7 million. Half the drop occurred in the automotive sector, mainly in cars and parts. Here is a rounded breakdown in millions of dollars:

	NOVEMBER			CUMULATIVE			Change
	Exports	**Imports**	**Balance**	**Exports**	**Imports**	**Balance**	**from '88**
U.S.	8,485.6	7,505.0	+980.6	95,590.6	85,534.2	+10,056.3	-2,726.2
Japan	701.8	663.1	+38.6	7,825.6	7,585.9	+240.5	−40.4
U.K.	254.8	406.9	−152.1	3,269.6	4,196.3	−926.7	+164.9
other EEC	669.4	759.5	-90.1	7,210.1	9,103.3	-1,893.2	+1,242.2
other OECD	350.7	372.2	-21.5	3,086.0	3,715.8	-629.8	-145.7
all others	1,063.4	1,139.9	-76.5	11,001.9	13,149.3	-2,147.4	-3,011.2
TOTALS	11,525.6	10,846.7	+679.0	127,984.8	123,285.0	+4,699.8	-4,516.4

External Affairs Budget

Finance Department figures show that the External Affairs share of the federal purse continues to shrink. Total spending in the latest month for which data are available, November, amounted to $11,441,000,000, of which 1.80% was for the Department of External Affairs and related programmes. This compared with 1.89% of $11,355,000,000 in overall spending in October and 2.46% of $10,053,000,000 in November, 1988. The pattern is similar in a comparison of the cumulative figures for the first eight months of the 1989-90 fiscal year. Total spending to November 30 was $88,186,000,000, of which 1.80% was for the External envelope. The year-earlier share was 2.20% of $80,338,000,000. Here is a rounded breakdown in thousands of dollars:

	NOVEMBER		F. Y. CUMULATIVE	
	1989	**1988**	**1989/90**	**1988/89**
Interests abroad				
Operating costs	50,764	55,245	405,663	366,648
Capital costs	7,915	6,881	41,619	34,068
Grants	3,160	5,026	64,124	60,702
Passport fund	132	1,700	580	−226
APF*	—	—	—	500
World exhibitions	48	141	279	1,357
Sub-total	62,019	68,993	512,265	463,049
CCC*	2,070	1,270	9,263	8,826
CIIPS*	—	750	3,000	3,250
CIDA*				
Operating costs	8,576	8,997	60,302	58,604
Grants	112,730	148,725	919,050	1,109,032
Pymts to financial inst.	—	8,876	35,426	67,188
APF*	—	—	—	500
Sub-total	121,306	166,578	1,014,778	1,235,324
EDC*	10,880	—	42,068	—
ICOD*	600	700	4,700	3,950
IDRC*	9,050	9,516	72,375	76,133
IJC*	314	283	2,949	2,745
OVERALL TOTALS	206,239	248,090	1,661,398	1,793,277

*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

Taking Taiwan Seriously

During 21 years of formal diplomatic relations, the Republic of China on Taiwan rarely attracted attention in Canada, except as a threat to peace during the 1950s crises over the islands of Quemoy and Matsu in the Straits of Taiwan offshore and as a recurring impediment to improved relations with the mainland. Pierre Trudeau's recognition of the People's Republic of China in 1970 was politically and strategically sound, and also held a promise of direct commercial benefit. The legacy from Mr. Trudeau's decision was an attitude and a policy.

The attitude has been a blend of indifference, distrust and occasional condescension; the policy has been strictly 'One China'. On everything from the avoidance of Taiwanese diplomats to the issuance of visas, Ottawa has adhered to the spirit and the letter of our initial commitment to the PRC. Officials have responded far less flexibly than several of our allies, particularly the United States, and apart from backbench Members of Parliament, few in our policy elite have visited Taiwan or even found it worthwhile to maintain a watchful eye on developments there.

A significant shift occurred in Ottawa in the mid-1980s. The most tangible element was the opening in 1986 of a trade office in Taipei, funded by the Department of External Affairs but operated by the Canadian Chamber of Commerce. More recently, there have been high-level diplomatic discussions and movement on immigration applications, visas, new representative offices and direct air links.

Taiwan certainly will loom larger in our priorities in the coming decade and beyond. The Canadian business presence is growing quickly. All five major Canadian chartered banks now have offices in Taipei. Two-way trade in 1989 was approximately $3 billion. And events on the mainland have triggered a rethinking of China policy. The tanks that rolled through Tiananmen Square last summer crushed public support in Canada for a 'special relationship' with the mainland. They also deepened already increasing suspicions in Ottawa about the long-term prospects for political stability and economic transition in the PRC.

The most pressing areas for new initiatives are in cultural exchange, expanded trade promotion and Taiwanese participation in international financial institutions such as the General Agreement on Tariffs and Trade and the Asia-Pacific Economic Cooperation group. More of our policy architects need to visit Taipei and we need to increase substantially the flow of communications in both directions. As in our connection with Japan, Canada needs to develop a co-ordinated capability for promoting at the same time as managing bilateral commercial relations.

Ottawa's balancing act in avoiding a major rupture with Beijing while pushing ahead with more 'substantive relations' with Taipei is nothing new. Adjustments to our Taiwan policy are likely to be low-key, cautious and incremental, but there is every reason to think that for the first time in 40 years, they will be enthusiastically pursued.

The dynamism of the Taiwanese economy showed no sign of abating in 1989. Gross Domestic Product grew by 8% to the equivalent of almost $153 billion Canadian; accumulated foreign reserves exceeded $87 billion; the annual trade surplus passed $15 billion despite a 40% increase in the New Taiwan Dollar since 1987; and per capita income today of $7,600 is where Japan was a decade ago. Taiwan also has developed into a significant foreign investor; the recent $285-million acquisition of Wyse Electronics exemplifies both this outward flow and a vigourous programme of restructuring its manufacturing base.

Equally impressive political changes have attracted less attention. In 1989, the process of democratization reached the stage where it is virtually irreversible. December's elections did not threaten the legal status of the Kuomintang (KMT) as the ruling party. The distribution of appointed and popularly elected positions does not make that even a theoretical possibility until 1992. But the elections were a watershed in that they were, on the whole, conducted fairly and accompanied by only isolated outbreaks of violence; also, they yielded few procedural irregularities. Taiwanese independence was broadly debated but did not figure as the major issue; nor did the outcome deeply antagonize Beijing.

Democratization, it is safe to say, survived the elections. In fact, there are three reasons to believe they accelerated the process. First, the opposition parties made major gains. The largest, the Democratic Progressive Party, captured 31% of the popular vote, which translated into a much larger contingent in the national, provincial and municipal legislatures, and victory in six of 14 country magistracy races. This vastly strengthens the legitimacy and voice of the opposition. Second, the Kuomintang's relatively poor performance in taking only 59% of the vote has intensified internal reform. Party discipline and unity are more shaky than at any time in the past four decades. In part, this is because electoral competition has increased tensions between the centre of the Party and the constituency level. Successful candidates for the Legislative Yuan and County Magistracies often spent in excess of $4 million. And they showed considerable independence in policy matters and formidable capacity for local fund raising. Third, inter-party rivalries and factional divisions within the KMT have vitalized the legislative branch of government at all levels. This has corresponded with an explosion of new and vigourous activity by interest groups.

There have been few signs of KMT or military determination to restore authoritarian one-party rule. Suppression of political dissent has been noticeably reduced, though not entirely eliminated, since the suspension of martial law in July, 1987. Major differences of opinion remain about the pace and ultimate destination of the reform process, but there is a broad consensus that the future will involve increased electoral competition, more assertive legislatures and less centralized control.

Behind any adjustment in Canada's approach to Taiwan must be a new attitude which recognizes that Taiwan is unlikely to disappear or self-destruct. On the contrary, the island of 20-million people is likely to be much more important to us in the future, especially as the effects of Hong Kong's repossession by the mainland in 1997 are felt. A necessary beginning is to think of our relations with Taiwan as opportunity rather than an obstacle.

Paul Evans is Associate Professor, Political Science, York University.