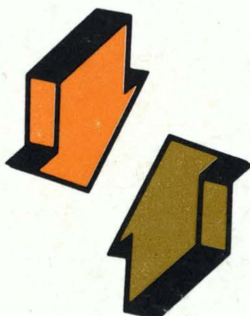
Omar Martínez Legorreta
editor

# RELATIONS BETWEEN MEXICO AND CANADA



EL COLEGIO DE MÉXICO

# RELATIONS BETWEEN MEXICO AND CANADA

CENTRO DE ESTUDIOS INTERNACIONALES

*Omar Martínez Legorreta*
Editor

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EL COLEGIO DE MÉXICO

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# INTRODUCTION

Despite their apparent geographical proximity, Mexico and Canada have remained peculiarly ignorant of one another. Separated by the continental United States -their common neighbour, a superpower, and the country that is the single most important economic factor for both, as well as the main concern of their foreign policies-, Mexico and Canada would seem to have chosen, by mutual consent, to search for equilibrium in their relationships with Europe and other areas rather than exploring the possibilities of working together more closely.

Until the sixties, it appeared that Mexico -and, in fact, the rest of Latin America and the Caribbean- were not very important for Canada. Similarly, the relationship with Canada did not seem to be high on the list of priorities in Mexico's foreign policy. However, towards the end of the sixties, a combination of several different internal and external factors in both countries led to a recognition of the need to create avenues for expression and understanding whereby the two countries could jointly explore means for ensuring closer and more effective cooperation.

The Mexican and Canadian Foreign Ministries, through the forum of the United Nations, initiated a process of cooperation that, fortunately, is still in effect. Shortly afterwards, the two governments agreed to set up Ministerial Meetings, the first of which was held in 1968.

Academic institutions in the two countries were also anxious to find ways of promoting closer cooperation. Thus, El Colegio de México, in collaboration with the Canadian Institute of International Relations, undertook the organization of a forum to bring together specialists in international relations, economics, political science, history, sociology, and other disciplines, for the purpose of considering the current state of development of each of the two countries, and the circumstances under which relations between Mexico and Canada might evolve in the foreseeable future.

The first of these meetings, which have been called Mexico-Canada Colloquia, was held in Oaxtepec, Mexico in 1967. Two years later, after that interesting experience, the Second Colloquium was held in Toronto, Canada in 1969. After a long hiatus, which in itself is proof of the practical difficulties involved in putting into effect these objectives of greater cooperation, interest in continuing such efforts was once again expressed. In 1980, the University of York in Toronto, through the Centre for Research on Latin

America and the Caribbean (CERLAC) and El Colegio de México, began preparations for the Third Colloquium. It took almost two years to organize; finally, in September of 1983 it met in Mexico, at El Colegio de México, with the participation of members of academic institutions, government officials, and individuals from the private sectors of both countries.

It was decided that the participants in the Third Colloquium would analyze four broad areas, which would enable them to compare their views on the international climate -in both the short and medium term- in which relations between the two countries would evolve. The areas chosen were: 1) Changes in International Relations in the Eighties; 2) Changes in International Economic Relations in the Eighties; 3) Policies Regarding Basic Resources: Energy and Food. Technological Cooperation; 4) The North-South Dialogue; and the Situation in Central America, as a theme of special interest.

The seventies were decisive in producing in Canada and Mexico the conviction that the two countries, considered "middle powers" by many, had common interests in several areas, above and beyond purely financial and trade relations. It is on the basis of this conviction that the desire has arisen to strengthen bilateral relations in economic, political, diplomatic and cultural spheres, as well as multilateral relations where there are also many common concerns. At the end of that decade, Mexico and Canada selected each other as countries of special interest in the future, and the usefulness of continuing to hold meetings of the binational commissions in the above-mentioned spheres was once again pointed out.

The participants in the Colloquium analyzed several international problems on which there was considerable agreement between Mexico and Canada, and discussed possible joint actions and agreements for strengthening the still rather limited rapprochement between the two countries.

For example, as "middle powers" -Canada in North America and Mexico with regard to Latin America-, both countries are of the opinion that the problems in Latin America are due more to poverty, economic inequality, and social injustice than to subversion and security risks; that is to say, that the issues entailed in the North-South relationship are more significant than those of the East-West relationship. This view led Mexico, Venezuela, Colombia, and Panama to establish the Contadora group and its policies to attempt to solve the Central American conflict, while Canada, for its part, expressed its disagreement with the way the United States has

handled the situation. In the Colloquium, it was suggested that "middle powers" like Canada could have a new role to play, acting as friendly restraints on the superpowers so as to stop them from rushing into irrational undertakings with unforeseeable consequences.

The papers presented at the Third Mexico-Canada Colloquium, published in this volume, encompass many other areas in which greater collaboration would be desirable. Aside from considering the world panorama in general, and the direction international relations seem to be taking in the final years of this decade, they also examine economic currents that influence those relations. With regard to energy, food and technology transfer, very sensitive points in binational and international relations are touched upon, and mention is also made of some of the contentious situations that might arise in the short term during the present decade.

The current state of the North-South dialogue is reviewed, and the great similarity in the positions of both countries is underlined. The prospects for bringing about a new international economic order are also considered.

The discussions at the Third Colloquium concluded with a special session on Central America. There, the possibility of Canada's playing a more important role in that area and in the Caribbean was brought up, in accordance with the conviction that Canada needs to make its presence felt much more directly in the affairs of this hemisphere.

In addition to the papers presented, the discussion following each has also been included. It was felt that this volume would be useful in view of the current importance of the topics discussed and because it would help further the aim of continuing to hold meetings of this type.

Finally, it is worth noting that in the dialogue between Mexico and Canada, both in this academic forum and in other binational forums, our proximity to the United States is duly taken into account. For that reason, ways of reaching a mutual understanding with that country are examined. In the case of all of the reflections contained in the papers included here, the relations with the United States serve as an important point of reference. Greater rapprochement between Mexico and Canada can only result, ultimately, in deeper understanding and in an enhancement of the relations among these three countries.

Omar Martínez Legorreta

# OPENING SESSION 9/26/83

*Prof. Víctor L. Urquidi*
El Colegio de México

I would like to make a few remarks on the significance of this Colloquium; we have had two meetings before, unfortunately a little distant in time: in 1967 in Oaxtepec and in 1969 in Toronto. In spite of this, which perhaps, in a way, reflects the physical distance between our countries, there has been an increasing interaction between our academic institutions and in the relations of both our countries. However, we have not forgotten how instructive our previous meetings were and how pleasant it was to join our Canadian friends in the very important dialogues which took place both formally at the conference table and informally outside the meetings at Oaxtepec and Toronto.

Many of us have participated throughout these years in a host of meetings in Canada and in other parts of the world where we have met Canadians. The meetings in Canada have been in a broader framework of Canadian-Latin American relations in places as far apart as Vancouver, Banff, Cuchichin (where I had my first contact with Canadians over Latin America), Montreal and Quebec. I am sure that many of my Mexican colleagues have attended meetings in other Canadian cities.

Since the 60s, since those fateful years, there have naturally been great transformations in the world economy, in international relations and in many factors which shape economic, social and political development. In that pe-

riod of some 20 years, decolonization has come to an end and there are now, at the latest count, 158 member states in the UN and quite a number of others outside the UN. At the same time, the rivalry between the two superpowers has become much greater, much deeper - accompanied by a level of arms expenditure and military preparation which brings humanity to the brink of danger of extinction. There are many blocs of countries, especially nearby, connected or related to the two superpowers. That is rather more significant than it was 20 years ago. Security problems have become extremely complex as recent events have just shown us. We have lived and continued to live in the midst of regional conflicts which, to say the least, are highly destructive to those affected by them.

There are serious maladjustments in the world economic situation, some generated by almost unforeseen factors like the so-called energy crisis in the 1970s and food supply problems, which have become more acute in the last 10 years; and we are close to experiencing very significant changes in the technological capability of some nations, whose consequences we are not yet ready to envisage properly.

At the same time, the Third World has been united more at the rhetorical level, with very wonderful declarations and resolutions, than in reality, and is becoming increasingly differentiated among regions: Africa, Asia, Latin America. Within each of these regions, the degree of modernization and industrialization has been leading some countries into a grey region falling between Third and First World countries, and not remaining as Third World countries - the so-called newly industrialized countries.

North-South relations are not merely relations between a simple homogeneous North and homogeneous South. It is a much more complex North with diverging interests and maladjustments and also a more heterogeneous and less united South, with less solidarity amongst the Southern countries.

In this general context, Mexican-Canadian relations have become more intense over this period. In the area of politics, there has been a normal development between friendly nations which are almost neighbours; nations that have learnt to know each other better in a framework of more intense changes in both countries, becoming more diverse and complex.

In the field of economic cooperation, there has been a rising volume of trade between Canada and Mexico; important

new elements have come into that trade, such as energy and technology. In what I would broadly call the social area, including tourism which has developed extraordinarily between Canada and Mexico, and which has very valuable "spin-offs" in trade and friendly relations, I would also include the whole field of education, which concerns us more here in this academic exchange. There is much more contact between universities and institutes doing research in our countries. We have had support from Canadian organizations for research programmes and projects in Mexico. More scholarships are available, more seminars, more visits to Mexico by Canadian professors and to Canada by Mexican professors. This should be an opportunity to assess what we have done in this period and to point to areas for future cooperation between governments, between the private sectors, between sets of academic institutions and in the academic world in general of both countries.

I do feel that in spite of my positive view of what has occurred during this time there is still much to be done in the future. We need clearly defined objectives and we should have a medium and long term plan or some sort of projection of what we would like to achieve.

At least on the Mexican side I can certainly underline the fact that, at the moment, we are lacking a great number of resources to implement programmes and projects. I hope that you Canadians are a little richer in that kind of activity than we are. In order for all these purposes to come to fruition it is extremely important that the Canadians and Mexicans get to know each other better at all the various levels at which we think this is necessary. It is not enough to know our past, our history, as we have learnt in many instances; we have to improve our understanding of what is going on today, of what recent transformations are occurring in both our nations. We must also look into the future: How do we regard our future? How do we view the relations between our two nations? How do we regard those relations in the context of the conflict-ridden world in which we are living?

Dr. Ian MacDonald
(President, York University):

My own acquaintance with members of El Colegio goes back to the late 1950s when I was involved with the Canadian Institute of International Affairs in arranging meetings here. If I may add a personal note: subsequently I was invited to teach for six weeks in the summer of 1965 in your institution. Unfortunately, my appointment at that time as Chief Economist of Ontario prevented me from taking that opportunity. Since that time I have followed the activities here with great interest and I was delighted therefore to be able to visit El Colegio once more in 1980 and have the opportunity to meet Víctor Urquidi, Mario Ojeda and others again. It was during discussions at the time of that visit that it was revealed that El Colegio was about to celebrate its 40th anniversary - just as York University was preparing to commemorate its 20th anniversary. Together we thought that this would be an interesting opportunity to bring York and El Colegio once again into closer association by organizing two reciprocal colloquia. Upon returning to York there followed some developments of a colloquium proposal which was then sent to various Canadians interested in Canada-Mexico relations (some of whom are here today) and that resulted in letters of encouragement from the Canadian Ambassador to Mexico and from the Department of External Affairs, particularly in view of the importance of the evolving relationship between Canada and Mexico that Dr. Urquidi described.

The Anniversary celebration timing in 1980 was not possible but we continued to develop our plans together culminating in a visit to Mexico by two representatives of York University to finalize the colloquium programme in which we have benefited greatly from the persistence and hard work of my colleague, Prof. Dossman, in bringing about these arrangements at our end.

The Canadian contingent present today, in addition to M. Maurice Dupras, Member of Parliament, includes representatives of York University Centre for Research on Latin America and the Caribbean (CERLAC), of the University of Toronto, of Carleton University in Ottawa, of the University of Gwelfth in Ontario, of Laval University in Quebec, of Simon Fraser University in British Colombia, and of the Canadian banking and consulting community. In addition, we have come to Mexico with the solid support and enthusiastic assistance of the Canadian International Development Agency (CIDA).

The meetings planned for the next three days have taken several years to prepare but I am sure that we all agree that they have been well worth waiting for, because it is vital that through our association we shall be in a position to make a contribution to the development of relationships, not only between our countries' academic institutions but between Canada and Mexico as well. In fact, the conversations we shall share in the next few days are representative of the kind of discussions that have taken place, as Dr. Urquidi has described, and should happen with much greater frequency and with greater fervour.

Discussions between Canadians and Mexicans are of particular importance especially when such shrill words are being exchanged by the world's two major superpowers. Obviously Canada and Mexico share this part of the globe with the most powerful nation in the world and as relatively smaller and weaker nations we are affected profoundly by the political and cultural styles of our neighbour, the United States.

While acknowledging the influence of the United States we must also recognize our own responsibility to employ Canadian and Mexican relationships with the U.S. in a manner of mutual benefit. I recall a conversation between a Mexican and a Canadian discussing relationships with the U.S.; one remarked to the other: "You know, we really only have one problem between us, but we both understand and appreciate our relationship with the U.S. We have an obligation to speak firmly and confidently in our dealings with the U.S. and when it is necessary, in order to safeguard the values we cherish the most, to take actions that may affect or influence the behaviour of our superpower neighbour."

Together, Canadians and Mexicans should think of themselves as taking the part of the dramatic player who, having the confidence of the story's many characters, is able to sustain the theatrical action while avoiding an untimely confrontation of the central protagonists. In order to carry out this role effectively we must have frequent occasions to exchange views and opinions on multilateral and bilateral relations, as well as on our respective roles in the global scene.

Some of these discussions will take place between us in the next few days and in the continuation of these meetings which we hope will evolve at York in future months. That will provide us with a stronger foundation for those opportunities. In the process, York University and El Colegio de México will be regarded as central catalysts in the initia-

tion and development of discussions between the academic communities of Canada and Mexico. Today marks the reaffirmation of what we hope will be a long tradition of frank and stimulating discussions between Canadian and Mexican academic institutions.

Ambassador Alfonso de Rosenzweig
(Undersecretary of State for Foreign Affairs):

I would like to point out that in the last thirty years or so, we, Mexicans and Canadians, have established a firm practice of cooperation between our two countries. I recall the close contacts that our Foreign Secretary at that time used to have on UN matters.

In 1967 you had the first Mexico-Canada Colloquium in Oaxtepec. In 1968 our governments decided to establish a Ministerial Committee which was to hold periodical meetings to discuss all matters of common interest to both governments. It is very proper that today we open this third colloquium, which is taking place just a month before the fifth Ministerial Meeting in Ottawa. To this we attach great importance: were it not because the Foreign Minister, Mr. Sepúlveda, who is a distinguished member of El Colegio de México, had to travel to Washington yesterday, he would have been present at this Opening Session and, because of his absence, I have the pleasure and honour of representing him today.

A few months ago he said that Mexico and Canada have worked together in favour of a better and more just International Order. Your discussions in the next few days will contribute to these common tasks that both our countries have.

It is an honour to declare this Third Mexico-Canada Colloquium open and I wish you the greatest success in the forthcoming discussions.

SECTION 1

# CHANGING INTERNATIONAL RELATIONS IN THE 80S

# WHAT ROLE FOR MIDDLE POWERS?

*John W. Holmes*

It is tempting for middle powers, or for any powers less than super, to throw up their hands in doubt as to whether they can at the moment do anything consequential to avert catastrophe, let alone launch constructive international enterprises. The superpowers are in a wilful mood, and the attitude is infectious. The international institutions which we played a decisive part in building and which are essential for our survival find consensus elusive and are being undermined by a prevalent cynicism. Regional and functional structures as well as universal institutions are in disrepute. The basic argument of this paper is, however, that the reasons given for despair are the reasons for trying more boldly and imaginatively to prevent rifts in the fabric and a slide into anarchy.

The superpowers at the moment display little constructive faith in international institutions, law or regulation except on a highly selective basis. Blaming them for the ills of the world has, of course, always been a form of escapism for lesser powers. It is unhelpful because it leads to false diagnosis, based usually on an exaggerated interpretation of the extent to which world affairs are in fact manipulated and ordered by Moscow and Washington. It might be healthier for us to start by recognizing that the real difficulty with the superpowers is that they don't know what to do and neither do we. And when we have our own ideas it is not easy to get their attention. Moving and shaking the Soviet Union has never been easy. What makes

the present situation especially frustrating and frightening is that the United States is in the hands of leaders who seem to have largely renounced that sense of international responsibility which has always been the redeeming feature of American policy. Because they plugged their ears it is not easy to influence them, but it is all the more important that countries which recognize the essentiality of the United States in a balanced world order seek to intervene effectively.

The increasing East-West tension can to a considerable extent be blamed on the superpowers, the USSR for its excessive armament and mischievous interventions abroad, and the United States for its ideological approach and its rigidities. Lesser powers provide a good deal of the provocation, but the superpowers impose their patterns on events. Talk of a renewed "Cold War" is to some extent justified, although it ignores important changes since the fifties. One of these is the declining hegemony of the superpowers. Indeed, the apparent inability of Moscow or Washington to accept and find ways of living with this change adds to the dangers of a period of transition. The allies of the superpowers have made their own contributions to the increase of tension. It is too often forgotten, for example, that the present missile controversy began with a request from the Europeans for such defences against Soviet missiles. Nevertheless, lesser powers get frightened more readily by tensions that seem beyond their control, and they have sensed a more important need to reduce friction insofar as possible. Some of the Western allies have traditionally seen themselves as tension-easers, but there has been of late a more intense dedication to the process, based on a recognition of their own dependence on détente, and the present détentistes in NATO include the more influential powers. The policies of the Federal Republic of Germany, under both left and right leadership, are notable, as has been the rebellion of all the NATO allies (the Canadians as well as the Europeans) against the single-mindedness of American policy on sanctions. This may be a temporary phenomenon attributable to the way in which the Reagan régime has pushed U.S. policies to extreme positions. If American policy reverts to a less confrontational stance, the need for the challenge will have diminished, although in the past some NATO allies have complained that Washington was not firm enough. It is unlikely, however, that the U.S. would be allowed to return to its hegemonial ways after it had been successfully resisted. It could become more sensi-

tive or move further towards nationalist isolation. The latter trend may be what we have to fear most, because a United Nations, a world order bereft of constructive American diplomacy and resources, would be ungainly and fearsome, a wraith of the League of Nations in its declining years. Such a trend should make Mexicans and Canadians in particular shudder, as it would almost certainly be accompanied by heavy pressure for the construction of Fortress North America. Indeed, as President Reagan has pronounced that we are all Americans from pole to pole, the vision may be even more extensive and sinister.

From the perspective of an outsider there has been a similar trend in the relation of the Latin allies of the United States. Even more so than in NATO there appears to be a widening gap between the United States and the others. The breach between the Latin and the English-speaking members of the OAS over the Falklands may have been a special case, but perhaps of more lasting importance than the formal breach was the dedicated effort of Latin American leaders to prevent the fighting in the interest not only of avoiding bloodshed but also of warding off the dangerous complications of war in our present predicament. Likewise, the NATO allies, although they supported the British position in principle, sought to restrain the more atavistic impulses of the Iron Lady. Of considerable significance has been the formation of the Contadora group and the disapproval of American recklessness in Central America by most Latin American governments. The Contadora action in particular has been welcomed by the NATO allies of the United States, reluctant to criticize their ally but anxious to support a constructive move. The Canadian government has publicly supported the Contadora initiative and privately expressed in Washington its considerable doubts about present U.S. policy in Central America. Among all these worried allies in the two camps there would certainly be differences on many world issues but they have in common a will to put the brakes on headstrong superpowers.

It is more difficult to note with assurance similar trends among Soviet allies, but over the past few decades there have certainly been changes. Romania has broken ranks, and the voting patterns of the other members in the UN have shown some variations. Within COMECON there seems to have been increased resistance to Soviet hegemony, and the question of Poland has fractured the common front, whatever the official proclamations. One can hazard the guess that on general issues of foreign policy and arms control there has been more challenging of the leader than in the

past. The mystic authority of the superpower is undermined. In Romania, in Hungary, and even in Poland they are getting away with resistance, a situation that is obscured by the obvious fact that they are not getting away with it entirely. In spite of Jaruzelski's reactions, the Poland of today is not the Poland of the days before John XXIII and Solidarity. As Lenin might have said, there have been two steps forward and only one step back. Ideology to the contrary notwithstanding, the Eastern Europeans are afraid of the same thing the West Europeans fear: of being a battleground. On that fundamental matter of self-interest the allies of the superpowers may well be more than ever disposed to challenge ideology with pragmatism. Does anxiety lead them to see more clearly that the ideological emperors have no clothes? A religious war fought over the theological differences between the Hungarian and French economies makes about as much sense as a war over the Nicene Creed.

Is it stretching things to see something similar in Asia? China has, of course, long since rejected Soviet or American "hegemony," but its diplomacy is becoming more activist. Japan's priority for economic considerations still prevents it from bold initiatives in the political and security sphere. Nevertheless, its economic strength and its membership in the Summit Seven mean that its views on all things must be taken into consideration by the powers. More important from our perspective may be the activities of the ASEAN powers and Australia. The brilliant diplomacy of the Singaporeans illustrates what a tiny country, taking advantage of a pivotal position, can do on the world scene, as in UNCLOS, and there are the concerted efforts of the neighbors in Southeast Asia to stabilize the situation in what was once Indochina. In some respects, of course, the ASEAN governments may be more rigid than the great powers over Cambodia. Restraint does not have to be all in one direction. There is a strong argument, however, here as in Central America or Central Africa, for shifting responsibility to those most closely affected. At any rate it moves them on from simple demands that distant powers cease intervening - an attitude which may be sensible enough but if carried no farther is a convenient cop-out. Getting the Americans and Cubans out of Central America, the Libyans out of Chad, or the Russians out of Afghanistan are only first steps, not solutions. Still, it is important to rescue them from dangerous entanglements and unachievable missions.

One cannot look at these more or less traditional security issues without recognizing the alteration of the world scene caused by changes in the world economic predicament. The expectation of restriction rather than expansion has made us all more nationalist including the United States, and, if one can judge by intimations of conflict in COMECON, the USSR as well. Both superpowers have a persistent belief that they are international rather than nation-states and that nationalism is a disease of lesser powers. At the moment, however, the disease is at its most virulent in the US Congress, in spite of recent efforts by some members of the administration to restrain excessive protectionism. A mood of antagonism toward other countries and international institutions that don't pay America sufficient respect accentuates our problem of reasoning with the United States. It cramps the generosity of spirit that made the United States, in spite of lapses, the enlightened leader of the international community.

Internationalism has shrivelled elsewhere as well. The European Community lacks the assurance necessary to play the benevolent role of a superpower, as it, and even the Americans, once hoped. Its initiatives in foreign policy are hampered by the lowest common-denominator imperative. In economics it is not much more than a protectionist bloc, substituting continental nationalism for the national nationalism its founders deplored. It accentuates the general restrictionist trend and offers little in the way of constructive leadership, although it does provide some counterweight to Washington. The middle powers, Canada included, plead for freeing the channels of trade and the removal of restrictions but feel compelled by the dog-eat-dog climate to respond to internal pressures for protection. Functionalist hopes that the knitting together of East-West economies would diminish tension are frustrated by security considerations, although the increasingly desperate need for commerce of any kind is a counteracting force. Progress on alleviating North-South disparities is stymied by stringencies. The emergence of high technology as a major factor in international competition has added industrial to security considerations that check the economic expansionism of the previous decades. Increased restrictions on the movement of people add to the tensions. We are in danger of choking to death. In this mood of fear and caution lesser powers are going to be inhibited in their diplomacy. They cannot help being intimidated by

the powers with the big economies and the overriding influence in the international financial institutions. It is a time to lie low and keep out of trouble.

Such are the dangers of conflagration and anarchy, nevertheless, that middle powers must act courageously and, it is to be hoped, wisely. There is probably not much we can do directly to sway the Russians. Efforts to make the East-West controversies more rational should help, although one can never assume too glibly that Soviet rationality matches our own. Because of the widespread tendency to place undue blame on the United States for Cold Warism, we might try to bring the non-aligned to a more balanced view of the issues (even if Mr. Reagan gives us little help). We can reach out to the lesser communist powers. There has always been, within the UN particularly, more quiet contact than is evident publicly and even a tacit kind of collaboration with the Eastern European middle powers. If this is to assist in the alleviation of tensions it has to be conducted with certain understanding. The more clearly our diplomatic activities of this kind are divorced from the Americans the better, although our expected ability to have some influence on Washington is an essential part of the game. The need of the Eastern Europeans to maintain their delicate relationship with the Soviet Union has to be respected. If we want ultimately to influence the Russians, trying to subvert their allies is the wrong tack. Whereas Canadians and the lesser Europeans have had their useful dialogues with the European associates, Latin Americans surely have the best chance of reasoning with the Cubans. Which is not to say, of course, that the Mexicans cannot talk with the Poles or the Canadians take advantage of the diplomatic contacts they have always maintained in Havana. A general rule is that the quieter this kind of diplomacy remains the better, and that is not easy given the pressure of the media for new angles and the desire of some politicians and diplomats to dramatize their activities. One of the advantages of maintaining the infrastructure of functional and other international bodies that bridge the blocs is that they provide unspectacular settings for conciliatory diplomacy. It is not so much new structures (featured conferences with the media in droves) that we need but a revitalizing of the oldest institutions for conflict resolution, diplomacy, and further experimentation in multilateral diplomacy, building on what have largely been lesser power contributions to the technique of UNCLOS.

To say that our real problem is the United States is not to argue that that country is the principal cause of the world's troubles. Even in its present derangement it is still, at least in comparison with others, approachable and subject to influence, not to mention a little carefully calculated leverage. Strong as it is, it has its increasing economic vulnerabilities, including a greater need of foreign trade than in the past. Generosity and tolerance, essential for a superpower, are being squeezed out by a popular impression that the Americans have been taken advantage of, that they have poured out aid to ungrateful countries, that their allies and others refuse to share the burdens of collective security. In this mood they can even convince themselves that they practice free trade and enterprise while all others erect barriers against them. In coping with this perversity it is wise to admit that on each score they have some justification. There is need for humility all round.

The most dismaying action of the Reagan administration has been its unconscionable rejection of the UN Law of the Sea and the contempt displayed, as by the U.S. mission in New York, for the UN system. Our most serious challenge is to try to turn that attitude around. To do so we must recognize that the persistent bias against the United States, as distinct from rational differences ad hoc, by majorities in the General Assembly, is indeed undermining the authority of the United Nations as a collectivity of institutions to which all countries can appeal for fair judgment and remedial action. The nature and extent of this hostility is, of course, greatly exaggerated by the nationalists in the U.S. administration and congress, and the policies of the Reaganites make irrational anti-Americanism seem more rational. There is an immediate task for friends and allies of the United States to coalesce for the defence of the Americans against their own follies. It is not just for the sake of people who hardly deserve such consideration at the moment, but for the preservation of the UN system so essential for middle powers. It seems unlikely that the U.S. would withdraw from the UN, although some cause for sudden anger could precipitate a crisis, but their selective withdrawal from agencies or programmes which offend them is policy already. Whether they are in or out, they are forfeiting the authority and the respect due them. Except in the financial agencies with headquarters in Washington, they seem to have abandoned the constructive role

required of the strongest power if the stability of the system is to be maintained. The problem is not that the communists will take over, but that anarchy will. The Russians are also a declining force in the UN. Faith in the mere possibility of international rule and regulation is always fragile, and régimes that have taken centuries to establish themselves could melt rapidly. We have allowed ourselves to become dependent on superpower leadership and the substitution of wider responsibility is not at all easy.

Our hope is that, as often in the past, crisis drives us to sober thought. The need for some international mechanism like the IMF was dramatically illustrated even for U.S. Republicans in the international banking crisis of the past year. The IMF is no doubt a faulty instrument and its constitution needs revising but the need of something that can work and work swiftly, however imperfectly, was clear. In spite of the irresponsibility of congress, the American administration is seeing some value in GATT and beginning to realize the need to do there as they would be done by. U.S. policy on security issues is by no means all wrong. It is taking upon itself the responsibility the Charter gave to the five great powers for managing peace in the Middle East and, although unilateral action of this kind is regrettable in theory, it is widely acceptable in the international community when it is reasonably well balanced. When the Security Council is paralyzed we have expected the United States to do something. In their present mood the Americans are disinclined to see a role for the UN in that area. Nevertheless, they fall back for their authority on the 1967 resolution of the Security Council and if they can manage a wider settlement they will realize the need for UN endorsement to make it stick. There is hope at the moment that they will see the ultimate futility of trying to impose their own will on Central America and turn to regional associations for assistance - or to rescue them from a mess. Certainly a great many Americans do so already. They may have learned also from the failure of their sanctions against the USSR, Poland, and against UNESCO, the ILO, or the IAEA that reckless unilateral policies are not likely to succeed. Most significant is a recent prediction made by the deputy chairman of the United States delegation to the final negotiating session of UNCLOS, Leigh S. Ratiner, himself a conservative who does not much like the provisions for the seabed. He believes that "this or some future Ad-

ministration will come to understand that the costs of isolation are far higher than the costs of accepting some of the rhetoric and principles of the North-South dialogue" and when it does join, the rules will have been made by others. He concludes: "Our senior foreign policy-makers should understand that once leadership is abdicated and the world finds that it can proceed without us, it will not be easy for the United States to reclaim its influence." ("The Law of the Sea: A Crossroads for American Foreign Policy," Foreign Affairs, LX, Summer 1982, p. 1021).

There is some cause for satisfaction at the United States' learning a much needed lesson in internationalism, provided they can absorb it rationally. No country, large or small, should be expected to admit being mistaken, even if they can blame the error on a previous régime. There is a role for friendly middle powers in assisting the adjustment - without, of course, ever saying so: not even the most liberal Americans like to be patronized by the lower classes. A historic case might be cited for encouragement. In the mid-fifties the foreign ministers of Australia, Belgium, and Canada reached a highly informal understanding at the Geneva Conference on the Far East that the United States would, in its own interest and in the interest of balanced world politics, inevitably have to establish relations with the real government of China. They could not be led to that act by public criticism or by a policy of isolating them. Humiliating a superpower, as J.F. Kennedy understood, can be dangerously destabilizing. These three medium powers would consider the manner in which they might help prepare the way to ease rather than complicate the political problems of the United States in recognizing the PRC. Nothing came of this for some years, but eventually Canada, followed swiftly by Belgium and a number of other countries, did act as a catalyst in 1970 by establishing relations with Peking and breaking the stalemate. The PRC was eased into the Chinese seat at the UN and the way was paved for the U.S. to change course. This is not a clear-cut case of what can be labelled "mediation," and the Americans were hardly aware of it, but it is the sort of thing which might suggest approaches to current problems.

If we try to think of things we can do in hardened categories -or give the political scientists a chance to define them in abstractions- we are impotent. Extreme pa-

tience and modesty are required. Our experience over the Law of the Sea is not yet very reassuring. When the Reagan administration delivered its blow, there was good reason for an explosion of anger, fierce denunciation, and even retaliation. This did come from some expected quarters. Many Latin Americans, Canadians, Australians, and others, no less angry, recognized that denunciation would only make the troglodytes in Washington more stubborn. However unfair it was of the Americans to demand concessions, compromises would be sought even if they were only for face-saving. The Americans did not leave the conference. An informal group of about a dozen lesser powers, the so-called "good Samaritans," worked very hard to meet some of the more reasonable American criticisms. Substantial concessions were offered, but in spite of the views of members of the U.S. delegation that they should be accepted, the stony-faced men in Washington turned them down and went off conspiring with some of the more recalcitrant Europeans. After that rebuff, it is hard to be optimistic. It will take time for the Americans to come round, if they do, and in the meantime the fabric can further disintegrate. Resistance is necessary to show the Americans that they cannot have their cake and eat it, and that will take courage, given the present disposition in Washington towards intolerance and retaliation. At the same time we have to do our best to keep the lid on the kind of anti-Americanism that would only widen the gap.

It is not only in the UN system that the United States is isolating itself and some kind of annealing diplomacy is required. The disrespect for international consultation and commitment is evident in such important bodies as NATO and the OAS. The divisions in NATO are pretty obvious, although it is important to note that what are usually described as confrontations between the Europeans and the Americans are generally, in fact, confrontations between the United States and all the allies, except often Britain. On such divisive questions as the Siberian pipeline and sanctions over Poland the Canadians have been much closer to the Europeans, although they do what they can so as not to accentuate the breach. Perhaps the danger of this Western rift for the American hard stance against the USSR is making the Reaganites a little more sensitive, but it is not easy to break them of the assumption that they can make policy for the alliance unilaterally and expect "loyalty" from those they so graciously defend. To what extent the same attitudes obtain in the

OAS is hard for an outsider to estimate. Never having been in fact, as distinct from rhetoric, as tight a military alliance as NATO, there has not been the same expectation of "loyalty" perhaps. In spite of ambiguous protestations, one does not detect in the present disposition of Washington any serious recourse to the OAS as an answer to its hemispheric problems or any inclination to accept an OAS consensus, even if that could be produced. But what if eventually it needs a way out of an impossible situation in Central America? The advantage of alliance consensus then is that the blame for what must be swallowed can be shared. After all, a major function of international institutions is face-saving.

So far we have been thinking about political and security questions and, to some extent, their economic implications. What about the number one problem, nuclear arms control and disarmament? This remains basically an issue of the superpowers, in which their power is not being diluted or more widely shared, as can be said of economic and conventional military power even though the usability of nuclear power in managing the world is cast increasingly in doubt. At the same time, of course, other powers cannot contract out of the efforts at controlling nuclear weapons. We can go on doing all the usual things, keeping up the pressure on the superpowers through the commissions in Geneva and the General Assembly, promoting by argument and our own practices the cause of non-proliferation. It is not so easy to take initiatives here because we cannot be a critical part of the bargaining process, and there is not much farther we can go with nuclear free zones, safeguards, and other measures which do involve our own national policies.

The so-called two-track approach of NATO presents a real dilemma for middle powers that are allied. It took a long time to get the superpowers into strategic arms limitation or reduction talks and, even though progress is discouraging, the most dangerous thing would be to have them broken off. If they are to move forward, it will be by the bargaining process, and bargaining requires credibility. The argument on the one hand for solidarity of an alliance in the interests of arms control is not one that a smaller ally can lightly disregard even though the allied position may not be exactly what he would like. In any case, his defection is likely only

to undermine the credibility of his side in the bargaining without having any effect on the continuing programme of the superpowers. On the other hand there is a strong argument for solidarity of "other powers" in calling for an end to the dangerous spiral and the complacency of deterrence thinking. Calling for unilateral disarmament as such is not likely to successful, although we might urge the powers to offer counters that are a lot bolder. There is everything to be said, however, for producing proposals that bear some relation to the state of the game and leaving the simplistic demands for banning the bomb to the peace-marchers, although they too have their function as citizens in the struggle for arms control. It is essential that they keep reminding us all that the sword of Damocles hangs over our heads. It is fatuous, of course, to see them as a monolithic communist conspiracy, but as "other powers" we can urge them to make a little clearer in their banners and their invective that there is more than one villain. We might also remind some of them that bellicose intolerance has always been one of the major causes of war.

For Canadians the issue of whether or not to test cruise missiles on Canadian soil pointed the dilemma. Was it better to assure a strong hand in the interest of progress in negotiation or to make a dramatic gesture against vertical escalation? The obvious political worry for Canadian and West European governments -not to mention the U.S. government itself- is that, as the Reagan administration thinks, the "peace movements" may weaken their hand in Geneva. On the other hand, they have also given the allies some leverage "softening" the American stance and in the search for acceptable compromise. One cannot escape the paradoxes with strident simplifications. There is no need, of course, for uniform policies among middle powers in this or other matters. Different approaches can be complementary. Mexico's contribution through the Tlatelolco initiative has been of great importance, and not without widespread influence. Canada, although allied, has not declared a nuclear free zone, as a number of Canadians urge, but it has, in the interest of non-proliferation, withdrawn from a nuclear role in both European and North American defence. As an exporter of uranium and nuclear reactors it has taken a lead in the move to get strong and uniform "safeguards" at considerable economic cost and at the cost of resentment by other exporters and by potential recipients in the Third World. None of these gestures by middle powers compares in consequence with what the super-

powers could do in this field, but that does not mean that they are not worth doing and that there are not other things that can be done singly or in concert. There are roles also for peoples as such and for governments that need not be identical.

The possibility of what one might call "constructive appeasement" between North and South is perhaps the most obvious role for middle powers. Cooperation between Mexico and Canada in the past (especially in the efforts to persuade President Reagan to take a more conciliatory attitude to "global negotiations"), illustrates how middle powers of dissimilar interests in the dialogue can nevertheless combine effectively. The fact that Canada was co-chairman with Venezuela at the North-South dialogue in Paris (the Conference on International Economic Cooperation) and with Mexico at Cancun suggests perhaps a natural pairing of countries with dissimilar interests but similar perspectives, although one should modestly recognize that neither meeting achieved the critical consensus. Perhaps we could take a more functionalist approach if we ceased to categorize countries so rigidly and unrealistically. Mexico is a "newly industrializing" member of what is usually called the developing world. Canada is a recognized member of the Summit Seven of the industrialized countries but also a developing country with many interests in common with the LDCs and the NICs on such issues as resource exploitation and multinational corporations. There is an especially strong argument for the maintenance of close contact between Mexico and Canada on North-South issues, a team that is more useful because it spans the blocs. Undoubtedly the two countries would vote differently from time to time in the UN and other bodies but not, it would be hoped, without advance explanation to each other. This has been the kind of relationship which Canada has always found helpful with its commonwealth partners, most of whom are of the Third World. Because they do not pretend to be a voting bloc their discussion is less inhibited. Perhaps if President Reagan should renew his proposals for a trilateral "North American Accord" we could suggest that it be an informal, from time to time, consultative arrangement on Commonwealth lines, with the strict understanding that consultation did not mean a U.S. briefing and that there would be listening all round, with no communiqué, no agreed decisions, and an equal number of press correspondents from each country. One of the services two such countries as

Canada and Mexico could provide is to dilute ideology with pragmatism, and that means intensive study of ways and means which are nowhere easy to find.

A danger is that countries with a mission think that good rhetoric is the answer. This is a particular challenge for Canada, whose prime minister has provided a good deal of helpful rhetoric that will lose its effect if it is not matched by practical initiatives and reduced resistance to the sacrifices required. Rhetoric on the side of the Group of 77 also gets in the way, and one useful role of intermediaries is to persuade the more vituperative that their denunciations have the wrong effect on parliaments and congresses, that the New International Economic Order has got to be less abstract and apocalyptic if it is not simply to launch international disorder. There is a good deal to be said for more breaking of ranks on all sides. The tactical argument for the Group of 77 to stand together cannot be easily dismissed, and certainly there are still economic issues on which it can be justified. The Group's standing together on principle on political and security issues is, however, one of the reasons for the widespread disinclination of countries to bring security issues before the Security Council or the General Assembly. Solidarity on foreign investment should not require solidarity on Israel or Poland.

The argument for more energetic and self-confident multilateral diplomacy on the part of the middle powers is a strong one. There is nothing radically new here, as this takes us back to San Francisco. This is not to imply that we are wiser and more peace-loving than the superpowers, but that superpower confrontation is exceedingly precarious if it is undiluted. The dangerous irresponsibility of lesser powers must also be restrained. We need checks and balances in the international system. Middle powers have often been effective to this end, but rarely if they try to work alone. Using, where practical, existing regional or functional associations makes good sense, but there is an especial need now for transregional initiatives. The UN Law of the Sea conferences have demonstrated the efficacy of shifting combinations as a means of progress in multilateral negotiation. Blocs play a useful role in UN diplomacy because they assist in the formulation of consensus, but too much rigidity is one of the causes of present stalemate. Even if conformity when the votes are taken is regarded as de rigueur, there can be what one might call constructive flexibility in the back-room diplomacy - as there was among

the allies of Britain and Argentina during the Falklands crisis.

It is unwise to try to maintain too rigid a distinction between efforts at conflict resolution inside or outside the UN. Nothing in the Charter requires that this activity be conducted strictly on the premises in New York or Geneva, and the responsibility not only of the five great powers but also of regional and other bodies to find solutions is made quite clear. There is a great deal to be said, nevertheless, for doing what we can to strengthen UN instrumentalities for this purpose. As suggested earlier, we have here an urgent requirement to mitigate the damage done by the Reagan administration. We can do a good deal also to strengthen the arm of the Secretary-General. It was a classic role of some of the more ardent middle powers to support Dag Hammarskjold, discreetly of course, when he used his important position for intermediary purposes. The present Secretary-General has displayed promising qualities of imagination, tact, and quiet zeal of a kind very much needed, and those middle powers that have traditionally supported the UN can give him not only encouragement but also cooperation of a more practical kind. It is not easy to combat the prevailing cynicism about the UN, and this has to be done by deeds rather than the revival of stale rhetoric. Nevertheless, middle power leaders can do something to correct the distorted interpretations of UN activities and dispositions and to offer more realistic approaches to the policies of all the agencies within the UN system.

In talking about new regional initiatives, some special attention should be directed to the Organization of American States and to the perennial question of Canada's participation. There is a very strong case, as has been said, for more cooperative efforts by Mexico and Canada, either in tandem or in wider partnerships. There is something to be said for the greater effectiveness of such a partnership if each is attached to a different bloc. On the other hand Canada as a non-member of the OAS has to feel some reticence about involving itself too bluntly in matters on the agenda of that organization, just as Mexico might be reluctant to give advice on specific issues of NATO or the Commonwealth. The discussion in Canada of membership in the OAS is still in about the same on-the-one-hand and on-the-other-hand state it was in when the matter was aired at Oaxtepec in 1967. Those Canadians who prefer not to get involved in rows with the Americans are all the more nerv-

ous. Those who feel that Canada ought to involve itself have increasing doubts about the present state of the OAS. A principal reason for Canadian hesitation has been that in the OAS there are commitments and voting by majority which go against deep-rooted Canadian instincts. Both NATO and the Commonwealth seek consensus and there is no voting on matters of substance. A good way to ease Canadian entry, if that is wanted, would be to transform the OAS into a purely consultative body like the Commonwealth. One could scarcely suggest this be done for the sole purpose of adding one member, but it could be argued as being in the general interest. There is much to be said for heads of government or ministers or officials coming together more or less regularly to compare notes on world problems without any compulsion to adopt uniform positions. Might that be a good way to move the OAS from its present deadlock into a more productive period? It would certainly be less destabilizing than to have it break up or cease to matter. The "Commonwealth" certainly provided a satisfactory formula for the sublimation of one outdated empire into a valuable international institution.

Restraint is, of course, not enough. The emphasis in this paper has been on the need for middle powers to check the powers on dangerous courses. At the moment that seems particularly necessary, but it must be borne in mind that one reason the great powers do not listen to us is that we tell them only what they ought not to do and are less than fertile with alternative suggestions. A danger in lesser powers (widely detectable in Canada, at least) is to think that criticizing American foreign policy is an adequate national foreign policy. Loud denunciation comes to be regarded as our special mission, regardless of the fact that it is normally counterproductive. Our inventiveness is particularly required in the North-South dialogue; on the broader political or strategic issues it is not easy to come up with a whole new direction or a comprehensive scheme. Sometimes the great powers produce plans that require flat opposition, but usually we have to try to bend, reshape or modify. The power to do so is often forfeited by a policy of rude denunciation. However we may disagree with the American administration we have to preserve a reputation with them of being constructive and not inimical to their fundamental interests - not an easy assignment when one deals with fundamentalists. It is wiser to confront them in company, especially if there is reason to fear an

economic backlash. One great advantage, of course, in dealing with this superpower rather than the other is that one can appeal to the whole nation, knowing that there are a great many Americans who feel as we do.

There is nothing really new here. Middle powers always have had more influence, for good or bad, than is reported in our histories. The histories have usually been written by Americans from American archives with Washington at the centre of world affairs either as the saviour or, in the eyes of "revisionist" Americans, as the devil itself, but never as just one of the players. We have been hypnotized and traumatized by that version of events into seeing ourselves as futile. Or we have assumed that because our influence cannot be by itself decisive it is of little avail. Internal issues increasingly preoccupy us, and that encourages timidity in international affairs or single-minded defence of the short range national interest. Much as we protest against the unilateralism of the superpowers, we get some comfort over not having to accept responsibility. Sharing responsibility is a great deal more complex than conceding it. We are as much responsible as the greater powers for the decline of internationalism and the frustration over international institutions. It is largely up to us at the moment to save them.

# CHANGING INTERNATIONAL RELATIONS IN THE 80S

*Humberto Garza Elizondo*

## I

The 1980s began ominously with the Soviet invasion of Afghanistan. This event underscores the fact that in the decade ahead -as in the three and a half decades since World War II- the Soviet Union will be the single major foreign preoccupation of the United States. And the United States, in turn, will represent the same for the Soviet Union.

At the same time, the United States will continue to be the major foreign concern for both Mexico and Canada. Yet the opposite is not true. In this era of superpower competition, apart from very brief, though important moments of crisis, the United States has seen Mexico and Canada as countries of low political salience. The major external conditions that will affect the course of Mexican-Canadian relations are thus evident. Generally, the growing tension between the U.S. and the USSR, on the one hand, and the global economic crisis, on the other, will present obstacles for closer relations and cooperation between Mexico and Canada. By the same token, superpower détente and global economic recovery constitute ingredients favourable to the strengthening of these relations.

Despite the deconcentration of power throughout the contemporary world, in military terms the United States and the Soviet Union will continue to be the most powerful; a

conflict between them implies the risk of war and catastrophe. Even without such a cataclysm, the competition between the superpowers results in an enormous share of their resources being devoted to responding to the military potential of the other, and the reinforcement of their mutually incompatible political values. At the same time, the magnitude, scope, and the diversity of their interests will ensure a variety of contacts and negotiations between them in which they will continue to seek a measure of safety and predictability in their relations, although for different purposes and based upon divergent premises.

To say that each superpower will thus be mainly preoccupied with the other is not, of course, to deny that each will have other concerns. On the contrary, the 1980s will almost certainly see the United States and USSR intensely engaged in their respective domestic problems, most notably economic, and in their respective spheres of influence. It is well known that both Mexico and Canada are within the sphere of influence of the United States, among other reasons, because they are located within its national security zone. This fact has important implications for the room for negotiating that Mexico and Canada each have during times of crisis for the United States.

Moreover, both the Soviet Union and the United States will wrestle with a broad range of external issues, many of which defy control. Yet the proclivity of each country to measure its strengths and weaknesses, aspirations and fears, progress and frustrations, against those of the other is likely to last for years, undoubtedly through the decade of the 1980s.

During this decade, the possibility of confrontation between the United States and the Soviet Union in the Third World remains a worrisome feature of the international scene. The danger of escalating conflict is particularly marked in the Middle East. In South Africa, tensions will remain high until definitive progress toward majority rule is achieved. The potential for conflict is ever present in Central America and other parts of the world; at times this depends upon the actions of both the United States and the Soviet Union; at other times, this potential exists in spite of such actions.

The Soviet intervention in Afghanistan and visible manifestations of instability in Central America, the Middle East and Poland have raised concern about Soviet intentions and U.S. military security to levels not seen in a decade.

Current discussions centre on the need to increase military expenditures, to develop the capability of American forces to intervene in the Third World when U.S. interests are threatened, and to obtain access to bases in order to enhance that capability. American policy-makers are now reassessing how important Third World countries are to U.S. security and which policies can most effectively protect those interests.

Maintenance of a global strategic balance is a crucial safeguard against nuclear holocaust. From this perspective, developing countries are important only to the extent that they affect the strategic balance. At the same time, however, thoughtful analysts realize that there are limitations to the exercise of U.S. military power and that a number of Third World countries and regions are of concern to the United States for reasons only tangentially related to the strategic relationship between the United States and the Soviet Union.

Further analysis and public discussion of the precise nature of the Soviet, Cuban, and Vietnamese "threat" to the developing countries is needed, as well as ongoing investigation of the nature of long-run U.S. security interests in such countries.

For the United States, the overriding issue in the 1980s will remain how to manage relations with the USSR to avoid both war and injury to U.S. interests. Theories abound which seek to explain Soviet motives and purposes: that the Soviets operate according to some systematic programme of expansion, leading eventually to world domination; that the unquestionable growth of Soviet influence and presence is essentially the result of exploitation of existing instabilities, not created by the Soviets, particularly in Third World regions; that the Soviets basically are still responding to what they consider the excessive power of the United States in the world and to the possibility of a hostile Western-Chinese coalition.

In general, one can pose two major scenarios for the conduct of Soviet foreign policy. Will Soviet power be used to negotiate from a position of strength and thus achieve security and other objectives? Or, will potentially adverse developments make the use of force seem less risky to Soviet interests? Examples of such developments are not difficult to imagine. They include, but are not limited to, the growth of Chinese power potential, the rearmament of Japan, a closer association of post-Tito

Yugoslavia with Western Europe, the growth of German military strength, and a threat to the security of Soviet maritime communications in some distant Soviet foothold.

These questions, which loom large in world politics for the 1980s, have no definitive answer.

The common fear of war has been widely considered a basis for moderating U.S.-Soviet antagonism and broadening opportunities for cooperation, especially in managing crises and in minimizing the chance of unintended conflict. In practice, however, the desire to avoid open warfare has not been easy to translate into more concrete kinds of joint action. But fear of war can be used as a form of pressure to test the resolve and tolerance of the other side. Most observers and policy-makers agree, however, that the Soviet Union seeks its objectives without war because it is just as conscious as the United States that a nuclear conflict would have catastrophic consequences for both.

The 1980s are likely to be characterized by continued instability and conflict in many parts of the world. As in earlier periods, there will be a multiplicity of causes, ranging from pressures for radical domestic change that may spill over the national borders of a particular country, to more traditional types of territorial or irredentist disputes.

Although it is easy to foresee a continuing intense mutual preoccupation and interaction between the United States and the Soviet Union, the course and character of U.S.-Soviet relations are difficult to predict. As the new decade began, both countries entered a period in which the major trends in this relationship were characterized by marked uncertainties and complexities. Perhaps this has always been true at any given time since the United States and the USSR became major antagonists in international politics. But it seems to be especially true now.

The heightened concern about security issues does not, however, diminish the importance of simultaneously addressing world development problems and formulating longer-range policies on Canadian relations with the countries of the Third World. Indeed, it will become increasingly difficult for the United States and other industrial powers to subordinate such problems to concerns regarding military security, relations with the USSR, or relations between the members of NATO and the OECD. The problems of economic relations with the Third World, development, human rights, basic needs and nuclear nonproliferation are

destined to occupy an increasingly important role in the foreign policies of industrialized countries.

## II

During the past two decades Mexico and Canada have become increasingly dependent on economic relationships with the rest of the world for their well-being. Mexican and Canadian economic policies have been forced to pay correspondingly greater attention to international developments. Being dependent on other countries makes Mexicans and Canadians uncomfortable. Having domestic policy options constrained by international forces makes them unhappy. Having domestic prosperity undermined by foreign events makes them angry. One natural response to these situations is to consider ways of reversing the dependence of Mexico and Canada on the world economy. In general, however, a more realistic and constructive response is to consider ways of coping with such dependence, and to turn it to Mexican and Canadian advantage. Other nations, after all, are dependent in turn upon Mexico and Canada.

Before Canadians had fully experienced the consequences of dependence, or rather, before they had become fully aware of their dependence, they had difficulty in understanding its implications for others. Perhaps the real significance of interdependence can be comprehended only now, when all major nations are subject to the tensions of mutual dependence. The decade of the 1980s may yet prove to be a time for new steps forward to be taken toward managing economic policy in an interdependent global economy.

In several respects, the next few years appear to be a particularly inauspicious time for increased attention to the main problem-issues in the relations between Canada and other industrial economies, and the developing countries of the Third World. The industrial economies of the North are beset by an apparently intractable set of domestic economic problems - slow growth and lagging productivity; structural unemployment; and rates of inflation that are eroding individual economic gains and leading to a pervasive sense of insecurity about the future.

The developing countries, having weathered the stresses of the last decade fairly well, also face a future of

increasing uncertainty. They suffer directly from slow growth in the markets of industrial countries, and price inflation in most of their purchases from abroad. Since 1974, their debt has grown at an exponential rate to an amount over $ 300 billion, while the commitment of the North to raising or even maintaining present levels of development assistance is weakening, even though poverty in the Third World remains widespread.

The activities of developing countries will be of increasing importance to the well-being of Canada and other developed countries in the decade to come. Developing countries not only supply a growing percentage of raw materials, oil, and low-cost, anti-inflationary consumer goods, but they now constitute major markets for the industries and farms of Canada and other industrial countries. Indeed, the Third World represents the new growth frontier for the world economy.

Problems in relations between developed and developing countries have been the subject of a long series of sometimes constructive, but more often acrimonious discussions and negotiations between the two groups of nations. Since the 1975 Seventh Special Session of the UN General Assembly, which succeeded in initiating a productive phase of these discussions after a particularly confrontational period, the talks have been known collectively as the North-South dialogue. In recent years, this dialogue has focussed on various aspects of the Third World's demands for a New International Economic Order.

The fundamental rationale for the New International Economic Order -which is a political movement as much as a set of economic objectives- lies in the Third World's dissatisfaction with the international distribution of power, wealth, and income among developed and developing countries. These gaps were initially attributed to colonialism, but when political independence did not yield rapid gains in living standards, Third World intellectuals and leaders began to scrutinize the international economic system itself for inequities and for what has been characterized as "economic colonialism."

The South's demands call for many changes in the rules governing international economic transactions and cover a wide variety of functional areas: commodity price-stabilization mechanisms based on buffer stockpiling and other arrangements; improvement of the generalized system of

preferences, in which exports of developing countries are granted duty-free or reduced duty entry into the markets of industrial countries; increased access to those markets for Third World exports; international monetary reform; and cancellation or rescheduling of debt on a case-by-case basis. Efforts of the South to maintain political unity have required that they demand implementation of the entire set of changes. This tactic, considered necessary by leaders of the South, has been rejected in toto by the North; hence the stalemate in the negotiations.

Developed and developing countries must together seek new methods to arrive at mutually beneficial changes in the existing international economic system. This will require shifts in perceptions and in procedures. Both North and South must begin to show a greater sensitivity to the concerns and needs of the other side, and find areas of common interest where progress is possible. Reaching agreements on substantive issues such as trade in energy products, manufactures, commodities, international investment, finance, debt, and rules for governing the exploitation of global resources will require reforms of institutions and of the negotiating process itself.

Assessments of the chances for progress of the North-South dialogue range from outright skepticism to cautious optimism. Critics note the rigidity on both sides regarding many of the policy issues and feel that little can be accomplished in global negotiating fora. Optimists, on the other hand, point to positive steps already taken in certain areas, such as trade reform, agreements on commodity arrangements, and commitments to some form of debt relief. It will take time to put these new forms of cooperation into operation, and some will prove more successful than others, but experimentation is preferable to no action at all.

## III

A Canadian ministerial mission to Latin America in 1968 reported that Canada was in a unique position to sell specialized technology and to participate in major projects connected with the industrialization of Mexico and Latin America in general. Yet the report concluded that

Canada's trade with Mexico was then at a disappointingly low level, particularly in view of the potential that existed, and when compared to its trade with other countries overseas, and to Mexico's trade with other countries.1/ Government officials called for a more systematic approach to trade with Mexico and with Latin America in general and suggested that Canada's trade policy would in turn determine Canadian investment and aid policies in Latin America. One concrete result of the 1968 ministerial mission was the establishment of a joint ministerial committee by Mexico and Canada, which has its parallel in a Canadian-Mexican businessmen's committee, created in 1971. Meetings between the politicians and businessmen of both countries helped create a climate in which bilateral trade and other links could blossom.

From that point, the relationship between Canada and Mexico has grown until Mexico now heads the list of countries in Latin America with which Canada seeks ever-expanding relations.2/ The Canada-Mexico relationship has moved from one of hemispheric neighbourliness to the beginnings of a warm friendship based on a growing trade partnership.

At the 1977 joint ministerial meeting Mexico and Canada agreed to strengthen the maturing relationship. Shortly afterwards, Mexico chose Canada as one of five countries with which it wanted to establish closer connections. Having become an important oil producing country with proven reserves greater than those of the United States or Venezuela, Mexico decided to use its newly available oil exports as a means of obtaining the technology it needed to accelerate industrialization. One of Mexico's major objectives was to reduce its great dependence on the United States both as an oil cus-

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1/ Department of External Affairs, "Preliminary Report of the Ministerial Mission to Latin America, 27 October-27 November 1968," pp. 24-25.

2/ For an informative analysis of the growing interest in Canada regarding its relations with Mexico, see: D. R. Murray, "The Bilateral Road: Canada and Latin America in the 1980s," International Journal, 37 (Winter 1981), pp. 108-131.

tomer and as a trading partner. It chose five industrialized countries which could supply this technology in return for oil: Canada, France, Sweden, Japan, and Spain. For Canada, which sought to diversify its suppliers of imported oil, the attraction of Mexico was obvious, particularly after 1979 when the international oil companies appeared to be acting in their own interests and showing a lack of sensitivity to Canadian needs. There was another factor which made Mexico a desirable partner for Canada. When the oil talks first began in 1978 the Canadian government was not only looking for additional oil supplies. It was also anxious to win new export contracts for its nuclear reactor, the Candu. A Canadian ministerial mission to Mexico in 1978 floated the idea of an exchange in which Canada would share its nuclear technology with Mexico (and sell it one or more reactors) in return for Mexican oil. The match seemed perfect, but before the agreement could be executed, both parties had second thoughts.

At the time of the 1980 industrial agreement, Canada's interest was focussed on the oil negotiations. Few Canadians paid much attention to the industrial cooperation provisions upon which Mexico had insisted. In return for its oil exports to Canada, Mexico expected transfers of technology in areas where Canada has special expertise: mining and processing, wood products and by-products, transportation equipment, agro-industry and food processing, petroleum and gas services, petrochemicals, telecommunications equipment, electrical power generation and transmission equipment, and consulting services. While Canada's desire to embark on a cooperative nuclear energy programme with Mexico was also covered in the industrial agreement, Mexicans did not tie themselves to purchasing Candu reactors. Winning the contract to construct nuclear reactors represented, for Canada, the grand prize; its worth to Canadian companies on the initial order for a Candu was an estimated $1.6 billion. Unfortunately for the blossoming binational cooperation in nuclear technology, Mexico's financial crisis stopped it short in early 1982. Since then, negotiations for the purchase of the Candu have been suspended indefinitely.

Even without a Candu sale, Canadian-Mexican trade has mushroomed in the aftermath of the industrial cooperation agreement, and the prospect of continued expan-

sion has made Canadian officials and exporters take Mexico more seriously as a market for Canadian goods. Canada's exports to Mexico in 1980 jumped by over 100 per cent, rising to $494.0 million from $242.7 million in 1979. Canadian imports from Mexico also rose dramatically by over 65 per cent to $345.4 million in 1980, which was much higher in dollar terms in 1981 because of oil imports. Mexico's trade surplus with Canada continued to grow: by 1982, Mexico exported U.S. $998.4 million and imported $446.7 million.3/ Historically, Canada has had a healthy surplus in bilateral trade with Mexico, but with the cost of oil imports this will probably change soon to a substantial deficit unless Canadian exports to Mexico continue to grow at a rapid pace - an unlikely development.

Trade, and specifically Canadian export opportunities, is determining Canada's priorities in its bilateral relations with Latin America. The Department of Industry, Trade and Commerce devoted the first of a series of country-by-country comprehensive export development strategies to Mexico, underlining its position at the top of Canada's list for expanding export sales.4/ The document recognizes that political relationships between the two countries are the key which will unlock opportunities for trade. We can expect to see regular prime ministerial visits and ministerial exchanges in an attempt to create the right climate for improved trade.

## IV

Oil and trade have brought Mexico and Canada closer together than they have ever been before. Can the partnership transcend trade? The amicable cooperation on North-South issues indicates it can, and both Canada and Mexico may well find themselves thrown together by the initiatives of President Reagan. His expressed desire to promote better relations with the closest neighbours of the United States,

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3/ United Nations, Yearbook of International Trade Statistics, 1979, 1980, 1981, 1982.

4/ Department of Industry, Trade and Commerce, "Canada's Export Development Plan for Mexico," April, 1981.

his project for a North American common market, his request to Canada and Mexico to join the United States in a collective development programme for the Caribbean, and the American position in Central America, all are pushing Mexico and Canada together.

Canada and Mexico co-chaired the October, 1981 North-South summit meeting in Cancún, and together, the leaders of the two countries sought to create an atmosphere of mutual understanding and dialogue between the North and South countries represented. The Mexican-Canadian commitment to sustain the Cancún spirit of cooperation was reiterated during Prime Minister Pierre Elliot Trudeau's visit in February, 1982. Together with López Portillo, he expressed the need to adopt a follow-up strategy in order to assure, at the highest political level possible, sustained attention to the major items of the Cancún agenda.

However, it appears that the purpose of Trudeau's visit extended beyond the reaffirmation of the Cancún process. It also included the search for an understanding -perhaps even an alliance- regarding the treatment accorded to the common neighbour: the United States. Another objective was to discuss the prospects for a three-way North American accord.

According to some commentators, one of Trudeau's interests in coming to Mexico was to learn from the Mexican experience concerning nationalizations and control over foreign investment; this is to say that Canada, keeping a sense of proportions, may learn something from Mexico's experience. This has caused a relative amount of concern in American official circles where it is thought that Mexico might be a bad precedent concerning the route of Canada's future actions. It is precisely on this point that one may think that Canada and Mexico may find common interests in their mutual relationship with the United States, although we cannot maintain that this will necessarily lead to the establishment of an alliance.

There is no doubt that the relationship that Mexico and Canada hold with the United States has a priority for both countries. Also, there is no doubt that, as Trudeau declared, relations that both countries have with the United States will continue to be more intense than those that would take place between Canada and Mexico. Nevertheless, it also remains clear that an increase in these relations complies with important objectives for Canada and Mexico. The economies of the United States, Canada

and Mexico are increasingly interdependent and complementary with, of course, the United States being the central pivot since direct Mexican-Canadian transactions are relatively modest.

As recent talk of a North American common market suggests, a primary force for continental integration is economics. The United States and Canada constitute major trading partners of each other, so much so that many Canadians look upon Canada as an American economic colony (though Canadian investment in the United States is also relatively considerable). The United States and Canada send each other large numbers of tourists as well.

Similarly, the United States and Mexico are major trading partners, and the pattern of American companies with Canadian subsidiaries has its counterpart in Mexico, along with the special feature of Mexican "border industries" geared to production for American markets. American tourism in Mexico is a major force in the Mexican economy.

The United States has drawn and still seeks to draw important raw materials from its neighbours. In the past it has imported oil from Canada, and although Canadian exports are being curtailed, the United States casts a covetous eye toward the Albertan tar and shale oil resources, even though such reserves also exist south of the border. The United States seeks to import whatever oil and gas Mexico produces beyond its current domestic usage.

Another important element tending toward economic integration among the three nations is agriculture. The United States and Canada have similar patterns of production of agricultural export crops, and Canadian and U.S. wheat combined could constitute a powerful North American "food weapon." Mexican agriculture is assuming a growing role in the production of out-of-season and/or stoop-labour fruits and vegetables for the American market and could increasingly serve Canada as well. While labour migration between Canada and the United States is of little importance, Mexican labour migration to the United States -legal and illegal- is vital to the health of the Mexican economy and of increasing importance in the American economy.

But if the factors discussed above push toward a greater integration of North America economically, other forces militate against such integration. It is no accident that calls for a common market have usually come from the United States, not Mexico or Canada. Most Mexicans and Canadians alike do not want their countries to become energy and agricultural colonies of the United States, and the leaders of

these countries would undoubtedly prefer if possible to build balanced economies on a national basis rather than allow their regions to become peripheries to American metropoles in a continentally balanced economy.

Cultural integration also faces obstacles. Canadians have long fought to preserve -or create- a special cultural identity, and most might prefer a political shell for what strength it might lend to cultural security. Mexicans already have a rich cultural heritage and would resist "North Americanization." So, too, of course, would Quebec cultural nationalists, who would be even worse off in a larger entity than at present.

Mexico is the clearest example of the benefits accruing to Canada from placing its emphasis on its relations with Latin America on a bilateral rather than a multilateral approach. But relations with Brazil, Venezuela and Cuba are also receiving careful attention.

A major exception to Canada's policy of bilateralism has been the Caribbean region, especially the Commonwealth Caribbean. This policy appears to stem in part from Canadian concern about security in the Caribbean now that 50 per cent of Canada's oil imports are shipped through the area. Canadian officials are worried about the instability of governments in some of the microstates of the region, and these concerns have helped to loosen the Canadian aid purse-strings.

Subsequent to the Sandinista revolution in Nicaragua, the tragic events in El Salvador have turned Canadian eyes towards Central America. With the growing prospect of upheaval in Guatemala, Central America may well continue to be a region in turmoil. Traditionally, Canadian foreign policy has not given the region high priority. This may be changing, although it is still premature to say that Central America will have a prominent place in Canada's Latin American policy for the next decade. Neither Canada nor Mexico views Central America and the Caribbean solely in terms of the global balance of power, and neither is likely to adopt a rigid East-West stance on the complex problems of the region.

If the Reagan administration chooses to flex its muscles in the Caribbean or Central America, both Canada and Mexico will be vitally affected. Conceivably, the two countries might find new areas of common interest as they seek to modify and channel United States actions in Latin America into formulations both can tolerate. The poli-

cies of the Reagan administration could thus be a catalyst for a closer alliance between Mexico and Canada.

V

Given these developments and trends, what is the future likely to hold? In all probability, we shall see a continuation of the international _status quo_, characterized chiefly by mounting tensions in East-West and North-South relations. Moments of crisis in each context will be followed by attempts at negotiation and by slow and modest progress toward the establishment of a new international economic and political order.

Over the next decade, the degree of closeness of Mexican-Canadian relations will depend primarily upon: the maintenance of a global strategic balance; major trends in world politics; the interplay between these and United States interests; global cooperation among developed and developing countries, _i.e._, progress in the North-South dialogue; the degree to which the Mexican and Canadian economies continue to be complementary, and the ideological compatibility of their leaders at any given time.

A world in a state of flux and constant conflict offers both Mexico and Canada opportunities to seek more significant roles in international politics. A strengthening of Mexican-Canadian relations is itself a development which can further the achievement of such roles. However, progress in these relations is itself vulnerable to changing political conditions.

In theory, a shifting global environment offers Mexico and Canada opportunities to achieve breakthroughs in their relations over the next decade. In practice, however, forseeable policy responses by the United States will diminish those opportunities because such breakthroughs are likely to affect its interests.

During the 1980s Mexican-Canadian relations are likely to undergo evolutionary and gradual change. While there is a clear willingness on the part of both countries to adapt to changing international realities, their domestic politics and other factors constitute major constraints against advocating dramatic change in the rela-

tionship.

There are, furthermore, a number of reasons – historical, political, economic, and cultural – why Mexican-Canadian relations may be expected to change only gradually, particularly during times of turmoil and uncertainty. Hence, the set of factors that have shaped the relationship between Mexico and Canada in the past will continue to be operational.

The course of Mexican-Canadian relations cannot be separated from United States foreign policy; their future evolution will be affected significantly by conditions arising from interests defined mainly in Washington. The degree of closeness and cooperation between Mexico and Canada will not only depend upon the course of Canadian-U.S. and Mexican-U.S. relations, but also upon U.S. policy responses to increased Mexican-Canadian closeness.

Mexican-Canadian relations ultimately may express themselves as a recourse for improving Mexico's and Canada's bargaining position and for reducing their dependence vis-à-vis the United States. An eventual Mexican-Canadian tactical alliance could involve a blending of greater economic and political cooperation between them with more nationalist and anti-Americanist foreign policies.

In practice, this alliance would result in policies designed to counteract American efforts to present obstacles for the relationship. It would not seek to exclude all American influence on Mexico or Canada. Such a task is almost certainly beyond the capacity of these two countries, and may not necessarily be in their interest. Rather, the alliance would seek to promote American readiness to work toward viable solutions consistent with the interests of these two countries.

Past experience continues to dominate the thinking and to condition the actions of Mexican and Canadian leaders to such an extent that containment of the U.S. has become the major function of international law and diplomatic practice, an end in itself rather than merely one tactic among many in the conduct of a foreign policy.

This traditional, reactive, essentially negative attitude must be replaced by a more spontaneous and empirical approach if Mexico and Canada are to exercise more of the options becoming available to them. While the relationship with the United States was preponderant in the past and remains extremely important in the present, Mexicans and Canadians must adopt a more sophisticated and comprehensive

view of the world if they hope to take advantage of their internal expansion and of the evolving world conditions which have reduced the relative power position of the United States.

Mexico and Canada should adjust to the proposition that new conditions require new approaches. They should follow a "grand strategy" of maximizing the advantages and minimizing the disadvantages represented by their proximity to the United States, the escalating conflict between the two superpowers, and the international economic crisis.

Progress involves change, and change implies conflict. Mexico and Canada must be prepared to live with the conflict that inevitably arises from changes in international politics and the world economy. Moreover, Mexico and Canada must be prepared to influence such changes positively, and to adapt their policies and relations in ways which take into account existing realities and which further their own interests.

## DISCUSSION 9/26/83 FIRST SESSION

Chairman: Dr. Ian MacDonald
Section 1: "Changing International Relations in the 80s"
Two papers were presented: the first by Prof. John Holmes from the University of Toronto and the second by Prof. Humberto Garza Elizondo from El Colegio de México.

Prof. Omar Martínez Legorreta
(El Colegio de México):

Prof. Holmes's paper opens by reviewing what the international responsibility would be in the present conditions and how this responsibility is considered by the superpowers and how it is viewed and exercised by the lesser powers. On this particular point there is a wide difference between how international responsibility is viewed by a superpower, or by a middle power, or, even, by a lesser power. A sense of international responsibility is largely built upon self-perception and experience in the role any given country is called upon to play in history and in present world situations, and there is a wide difference in perception of the secondary or other roles of other countries. International responsibility is the concern not of just one but of all countries in varying degrees. For example: the international community is made up of a series of states and the superpowers do tend to consider that there is only one responsibility - which is theirs: to see that the order and the relations of the international community are achieved by what they consider the best means.

Some countries think that international responsibility

is of no concern to them and that they can act as they wish regardless of others' opinions. In this respect, I entirely agree with Prof. Holmes when he asserts that the declining hegemony of the superpowers and their inability to face that situation are elements of considerable weight in the present critical position. Once a certain perception of international responsibility is renounced it can only lead to greater disorder and to a state of anarchy. This is the worst thing that could happen to the world in the present situation and apparently this is the way we are heading. In this sense, allies in Western and/or Eastern organizations, or blocs, are probably the first victims of the situation on each side and the role of tension easers they have so often played now appears as a series of independent moves instead of a concerted action. If they cannot agree amongst themselves to seek and implement measures and policies of restraint vis-à-vis the superpowers on each side, what can the lesser powers do? Nor are international organizations of any use or influence in suggesting alternative policies if order cannot be established within these groups. Unfortunately for the whole situation, restraint is becoming increasingly difficult, particularly in the domain of strategy. Concern for innocent casualties is of little or no importance as the case of the Korean plane recently demonstrated. Undoubtedly, allies in both camps are not only willing to put the brake on the headstrong superpowers but are also ready for some sort of concerted action between the two camps. It is in this field that the bold and imaginative actions and policies Prof. Holmes requested can best be tried.

Some kind of direct, informal consultation, conversation and constant contact between Eastern and Western groups within the formal framework of the international organizations can only result in innovative measures to defuse the crisis. To quite Prof. Holmes: "On that fundamental matter of self-interest the allies of the superpowers may well be more than ever disposed to challenge ideology with pragmatism," as is shown in the quiet contacts at the UN. If only for that particular purpose, this modest and obscure but effective policy, the UN and other international organizations do play a vital role. If they did not exist they would have to be invented to provide contacts and common grounds for contacts. These opportunities are even more difficult

to find as a crisis not only in the strategic but also in the economic field complicates the situation. Certainly more than one possible solution has failed because it would not take sufficiently into account either of the two components. Sometimes, certain suggested policies, certain recommended courses of action refer mostly, or only, to the political side and neglect the economic implications, or vice versa.

The picture Prof. Holmes presents of today's problems in the UN system as the target of destructive blows from both the U.S. and USSR is unfortunately true, as we know. It would seem that the superpowers, having failed to transform international organizations so as to enable them to shape a world order to their different tastes and perceived needs, are determined to do away with them.

I agree with Prof. Holmes when he says that the preservation of the UN system is essential for middle powers to work. Middle powers can only function if the UN system and other organizations continue to exist; if they were not there, another system of a similar kind would have to be established.

Prof. Holmes speaks of a role for friendly middle powers in assisting the adjustment of the superpowers to a new international situation. There follows a list of conditions and requirements: extreme patience and modesty; resistance to the superpowers and others. These conditions may sometimes be extremely difficult to put into practice, even for friendly middle powers, and so there is no hope, nor any positive action left for the less friendly ones.

The situation Prof. Holmes mentions is one of complete disrespect and cynicism towards the UN and international organizations and even contempt, as has been shown by the U.S. delegation to the UN with its gradual withdrawal from institutions within the UN system. One can compare this with the general attitude of the USSR delegation to the UN, which is less aggressive and perhaps more prudent. The blows struck by the U.S. delegation against the UN are stronger by far and more decisive than those struck by the USSR. I can well imagine that there may be a policy of "let them act, while we wait and see" on the part of the USSR. Thus they are being more prudent, and the floor is left open for others.

The present disrespect for international consultations and commitment may be new within the Western camp, NATO and other places, but it is certainly not new

within the regional Latin American or American organizations. The OAS is an example.

The members of the Atlantic alliance are now experiencing what members of the American organization have long been suffering; there is a great lesson to be learnt there. Under these conditions, rhetoric, blamed so much for so many things, is probably the only thing left for a little face-saving, if nothing else.

I would like to underline and subscribe to the implicit hope of Prof. Holmes' words that even for that last reason, that of face-saving, a major function of an international institution such as the OAS could be that of attaining consensus, even of risking failure and therefore sharing the blame, as long as there has been common standing on the basis of previous consultations.

We are far from witnessing such an attitude on the part of the U.S. vis-à-vis the OAS. It would be a pleasant surprise to discover a willingness to treat this organization more seriously, as a regional response to a regional crisis - just as Dr. Holmes suggests. If only as a consultative body, the OAS would have a great bearing on the solution of the crisis on the American continent, mainly in Central America.

We then come to the role of "constructive appeasement" that Prof. Holmes mentioned, as the obvious one for the middle powers like Canada and Mexico, which is the core of this paper as well. He asks for a more functionalistic approach and I would interpret this as being the kind of considerations and actions which, undertaken jointly, can be the best or the most fruitful for both countries.

There is need for more local or regional solutions, consultations, organizations, etc. Prof. Holmes has remarked that now bilateralism is rampant because this seems to be the preferred weapon or the best policy suiting the interests of these superpowers - much more than the need for regional responses and answers to this situation.

Prof. Holmes has made references, for instance, to the role in Asia of Japan, which we all expect to be increasingly important in policies, as well as in economics; also to the very successful policy apparently followed by Asian countries in regional crises, such as Cambodia and Vietnam on the political and economic front. This is a clear case of the successful interaction of the two components being taken into consideration by both parts. Asian countries have just been demonstrating their prudence in dealing with this matter. They approach the crisis with a

kind of common policy and make recommendations to other powers outside the area, as to the best possible solution for these types of problems. By the same token, we can think of the Central American crisis here and the policy of the Contadora group: it provides the same type of answer to a similar kind of situation.

In my opinion, the Contadora policy, which has had positive support from Canada, would put that support to better use if there were even greater involvement on Canada's part in regional Latin American affairs. Of course, Canada is taking a more careful and direct approach to the Central American problem. The crisis is of such a nature that it will necessarily affect Canadian interests and policies in the whole area and elsewhere; so Canada will have to take a closer interest in seeking a solution for these problems. This does not necessarily mean that this has to be done through Canada's becoming a member of the OAS. We can have Canadian assistance in solving this problem, which would be in their interest. Of all the middle powers in the world, Canada and Mexico probably occupy a unique position, as regards their geographical proximity to one of the superpowers. This, of course, calls for a special relationship of each one with the U.S. – as Prof. Garza mentioned in his paper, this is the single most important relationship for Mexico and Canada. This fact calls for a continued effort to dilute ideology with pragmatism, as mentioned by Prof. Holmes, both in bilateral policies and in the concerted action of Canada and Mexico, and even of the three countries together. This existing fact requires a more intensive study of ways and means, again as pointed out by Prof. Holmes, either jointly or separately. It also calls for greater understanding between the three countries of North America and, for the purposes of this meeting, between Canada and Mexico. This colloquium came into being because of this need. There needs to be more energetic and self-confident multilateral diplomacy, which is recognized as an ideal role for the middle powers; in the present situation in Latin America regional initiatives are a matter of importance. A greater Canadian involvement in Latin American affairs can only be brought about by concerted action. One cannot think here, as Prof. Holmes prudently remarks, that it would ever be considered as intervention on Canada's part in matters on the OAS agenda. Canada is a part of the American continent and anything that happens here now has a direct effect on Canada. Besides, as Prof. Holmes points out, we need to maintain greater checks on the actions of

the superpowers and those checks in our region will necessarily have to be of a different kind from mere criticism of U.S. foreign policy. A constructive and firm joint confrontation can result in positive response, as well as less positive ones. However, that is a risk which can also be assumed jointly. Sharing responsibility would be a new policy on many fronts, more complex and delicate, but the present situation requires those approaches. It is perhaps the only field left for increasing cooperation between Mexico and Canada of the kind Prof. Holmes demands, if we want to shore up declining internationalism, and also strengthen international organizations.

Prof. André Dufour
(Laval University):

I was really impressed by the fact that both papers had complementary conclusions. They both reach the conclusion that Mexico and Canada have a job to do in international affairs, in cooperation, and that we may be examples to other countries.

In discussing a theme like "changes in international relations," there is always a gap between progressive trends we may find in recent development and conservative images that still influence our reactions. For example, the present economic crisis is still evaluated by many in relation to the Great Depression. Soviet military influence is often judged in relation to what we remember, especially if we are old enough, of Hitler's growing military power or of Chamberlain's attitude towards Hitler, or of the European attitude towards this new power. Therefore, if we do not want to have automatic reactions to international problems, we must destroy images, which often means ignorance, by obtaining accurate information and by improving solutions and institutions at the international level to a higher point of development from what we have already achieved.

Among the strong reactions we heard after the Soviet attack on a civil plane, we heard references to an uncivilized act. It is important to have a reference to what we consider as being an act of civilization, which means that around the world we must have standards, not always legal, not always political, but moral - a rule of civilization. It is true, as Prof. Garza explained, that if a World War started

tomorrow we would turn automatically to the U.S. for protection against Soviet attack but, should we define our lives only in view of this hypothesis, this possibility? We have something more to do, and, in this context, as both papers have shown, middle powers like Mexico and Canada must give more support to evolving new international rules; then the superpowers may get interested just because they may rely on law rather than force. When protection for vital interests is achieved we can then start to stimulate democratic institutions, legal institutions and solve problems like the Law of the Sea.

In the context of the questions: what can we do or what can we imagine, what can we take away from our own responsibility, I would like to bring up, as Prof. Holmes did, the example of the Falklands, the war between Britain and Argentina. What is the place in such a context of this notion he presented as a problem of loyalty, on which side is the loyalty? This is a good point of discussion for both delegations.

My next remark is on the resurgence of religious and cultural influence in world relations. After all, in the past decade, the oil crisis was an Arab crisis; it had an economic and cultural background. In the same way the fact, for example, that Poland is Catholic is not irrelevant to its place in the USSR's sphere of influence or lack of influence; they do have something in common apart from communism. Also the fact that Qaddafi or Khomeini are Muslim is not irrelevant to what happens in the Middle East. A last example of this religious and cultural influence is the fact that the Canadian presence in Central America is largely based on a religious connection. We can therefore understand the radical difference in views expressed in the U.S. or in Canada about Sandinists or about El Salvador. We do not rely on the same information and it is important to see on American television channels what the American government presents as being their information or facts and what Canadian churches present as being their own information; it radically influences public opinion towards these situations.

It is normal, when people have what we call "bread and butter," that they turn towards ideologies, towards seditious ideas like peace and the quality of life; they start to think of other things apart from survival. That is why more and more countries must have different opinions in the world concert.

We no longer face a problem of colonization, which was the post World War II problem up until the 70s, but we do

have a problem of transfer of technology. This was brought up in both papers. It is fundamentally a problem of knowledge and causes of conflicts between countries, as well as within every country. It is interesting to see, at the same time, the relation between these types of international conflicts and internal problems; for example, in Canada, we have confrontations between the Eastern and the Western parts of Canada. We also need a North-South Dialogue because development in the Northern part of the country is not the same as in the South and they ask for more than sun. They face the energy crisis differently.

We may therefore take these internal problems, see how we can solve them or why we cannot solve them, what institutions we sometimes rely on to build up new solutions, or even exchange ideas with Mexicans on how they solve them or how we can find new ideas and present them to the international concert.

At the university level we have had, in the past, experiences of technology transfer around the world, precisely with Mexican institutions. On the reciprocal basis these experiences brought important results; the links between research centres, like the one we have, and links between universities may bring new examples of success in technology transfer. Both our countries are condemned to imagination in international relations and we could have the opportunity of giving a good example of cooperation.

THE FLOOR IS OPENED TO DISCUSSION:

Prof. Gabriel Székely
(El Colegio de México):

I fully agree with Prof. Holmes' proposition that there are certain overriding tensions now affecting the prospects for the UN system to continue playing the positive role it has been playing in the past. It may be up to countries such as Canada and Mexico to make special efforts to dilute those tensions and to bring forth new ideas. Canada and Mexico have played this role at the diplomatic governmental level in the past, very successfully in some respects, but, perhaps, not so successfully at the practical level. It may be time to begin thinking, as everybody in the world now agrees, that we have to stop the rhetoric and to come forth with concrete proposals on how to solve the disagreements

that exist within the UN. Perhaps it is up to the countries' universities such as ours and others like Brazil and Nigeria who have been key brokers at the governmental level in bringing North and South together to exchange views on the prospects for building a new world order. It may be time for some of our universities to join efforts in some very specific areas of study whose purpose would be to make very concrete and specific proposals, probably on two or three issues, that could help officials negotiate better for these changes.

Unfortunately this kind of exercise has been tried recently at two broad levels: The Brandt Commission experience which was very good in terms of coming to an agreement on general and broad principles. However, if one wants to make something out of the Brandt Commission Report it is very difficult for the Southern countries to sit down once more and convince the more powerful Northern countries that this and that change is desirable because no such concrete proposals have been made.

The Law of the Sea negotiations constitute one key example of the interaction between the academic and the diplomatic world in several nations. They were successful almost to the point of being signed as a world agreement. "The Law of the Sea" treaty's success was partly due to this heavy involvement by academics who brought forward these fresh ideas and notions. So, why not begin thinking of some other very specific areas in which joint efforts between universities of several countries would materialize?

Prof. Robert Cox
(York University):

I shall start with the point Prof. Holmes made about the gravely threatened international institutions. He has drawn up an agenda of basic issues which could be a kind of common programme of concerns amongst us. It seems to me that, in this respect, there is a difference between the way in which the UN system is perceived by people at different times; there is the sense of the UN as a thing, as the embodiment of a set of rules, as an instrumentality for enforcing a set of rules and, in counter distinction to that, the sense of international institutions as the opportunity for a political process where one cannot assume too

much in the way of common rules, or capability of sustaining those rules. One has to assume that the purpose of the process is to arrive at agreements and, perhaps, apart from that, to establish some sense of a more permanent order.

If you think back to the origins of the UN, it was more natural to assume that sense of the international institutions as the embodiment of an order in 1945, but all of the experience since and particularly in the last two decades, not only in the political sphere but in the economic sphere as well, has indicated an erosion of those understandings about principles of order and that erosion should not be the occasion for disillusioned optimism, as distinct from pessimism, which leads to the kind of cynicism and rejection that Prof. Holmes pointed to. It should be the basis for an admittedly pessimistic appraisal of what is materially possible, given the world's conditions, and a new determination to make the process of negotiations work as effectively as possible, not to assume anything very much in the way of a pre-existing order.

Within this framework there is a role for what I would call "empathetic neutrals," in the sense of people who are capable of putting themselves in the position of parties to a conflict, understanding their fears and concerns and trying, by their ability to empathize with each side, to produce a kind of proposal that will, in some way, respond to these concerns and distill a greater order out of conflict. The empathetic neutral is essentially an individual, not a country, but there are certain countries that provide a greater opportunity for people who can perform this role. Hopefully Canada and Mexico can be counted amongst these countries along with the Scandinavian and Low Countries, etc.

Insofar as we recognize the pessimistic role of international institutions as an opportunity for dialogue, then there is great importance in nourishing and encouraging the scope for this kind of activity.

There is one point I would like to press Prof. Holmes on a little bit more. It may not be a difference in views but a difference in the way of stating positions; this is with regard to our attitudes towards not so much the U.S. but the present American administration. I would certainly subscribe to your assertion that public denunciation is counterproductive and is not the role to be taken; on the other hand, that should not necessarily lead us to the idea that quiet diplomacy of a non-public character is the only

channel. One can leave open the question: How far has influence of this kind, in effect, worked? This brings us back to the question that Prof. Holmes opened on this problem: How best to influence the U.S.? One has to begin with the proposition that this current administration is obsessively ideological in its way of appraising situations and that this ideology can lead to ruinous and dangerous oversimplifications.

Therefore, the important role is perhaps not so much to denounce American positions as to attempt, in as friendly a way as possible, to expose the erroneous basis of the reasoning on which some of those positions have been taken. If one starts with the simplification that everything is a manifestation of the U.S./Soviet confrontation, that everything is to be subordinated to that, that this confrontation is to be perceived in Manichean terms as a struggle between good and evil and that, because of its being a struggle between good and evil, one cannot trust or cannot frame any procedures that bind the other side other than by a show of superior military force.

These kinds of simplifications apply almost indiscriminately to issues in various parts of the world and they lead to very dangerous situations. The way of counteracting them is to provide a better analysis which is convincing to that part of American opinion not inclined to accept this excessively ideological approach.

There was a rather telling article in the current issue of "Foreign Affairs" by Arthur Schlesinger, Jr. who stressed this oscillation in American attitudes between the ideological and the pragmatic. We have a role in addressing American public opinion, perhaps not directly, not over the heads of government, but in a way which is sufficiently open in public so that those who are of a pragmatic disposition can say: "Well, even our Canadian and Mexican friends challenge the basis on which these conclusions have been reached" and that, in turn, means that we must maintain the integrity of our intelligence; this was a point that Prof. Dufour raised, of our own sources of information. We should not allow our judgment on these matters to be excessively influenced by the sources which have become the basis for U.S. policy.

As a pessimist I remain somewhat skeptical with respect to the dangers that will impede our doing these very things. One of these dangers is the inevitable linkage of issues in our own respective foreign policies vis-à-vis the U.S. Americans are always telling us that there is no issue linkage, that we deal with each on its merits; but, in fact, there is

always an issue linkage, even if it is not explicit, only in our consciousness of the way we allocate our priorities.

The fact that both our countries, as Prof. Garza mentioned in his paper, are really in the backwash of the U.S. economy means that a number of "bread and butter" issues are bound, at any given moment, to have priority over some of the world security issues. In these issues we are, perhaps, not so directly involved as countries, and we may be inclined to mute our attitudes and our analysis of them where they differ from the U.S. in deference to the priorities of our immediate "bread and butter" issues.

The other thing is that, particularly with respect to Canada, we cannot underestimate the extent to which our public opinion is culturally penetrated by the American analysis and the oversimplification of this analysis. We therefore have to hold a rearguard action in defending the ability of our own government to maintain this kind of empathetic neutralist position on some of these issues, to prove its capacity not just to accept the American basis but to take a stand. The latency of public opinion is always something that is threatening this process.

Prof. Gerald Helleiner
(University of Toronto):

I particularly appreciated the emphasis both speakers placed on what Prof. Holmes called "Resurrecting Middle Power Diplomacy," specifically when the Canada-Mexico context relates to our own performance in a whole range of issues. The ones that interest me the most, because of the state of the world economy, are those in the sphere of the international, financial and trading institutions. I would not go as far as Professor Holmes did when he said that the one area in which Washington, at present, continues constructive leadership is in the financial institutions which have their headquarters in Washington. Time has passed since that was written but it demonstrates that there is, in fact, no leadership in some of the most fundamental questions relating to the performance of the fund in the bank. Pragmatically, if middle powers, who are those with the most to lose from the disintegration of institutions like these, are to choose to exercise their power more effectively, how, in fact, do they go about it? Prof. Székely referred to a couple of possible routes and they deserve some exploration: one is sheer academic study on a cooperative basis in which, presumably,

others besides Canada and Mexico could get involved; in which there was not so much research on new areas. There has been a lot in many of these spheres, as a search for middle ground.

Another route which Prof. Székely rather downplayed correctly is the Brandt Commission mechanism in which there was a search for middle ground, but no one asked for this group to conduct their discussions, there was no political content, no governments had requested that this be done. In both of these models the outcome is perhaps useful and it may influence public opinion, but in both cases there remains a smile without a face; you do need some diplomatic and political way of getting at these matters.

Let me suggest another couple of possible models for constructive middle power inputs: one is a model in which I have recently been involved, in which governments request that nongovernment people from a variety of areas, themselves seek to reach a middle ground. In this instance it was Commonwealth Finance Ministers who asked people, for obvious reasons from purely Commonwealth countries, from a whole variety of backgrounds (private, central and development bankers, academics of various types from the North and South) to see whether they could find their way through some of the financial questions. What amazed me and the other participants about this process was how far this group got in attaining a middle ground. They were the pragmatic searchers for a compromise, who, because they were not bound by their own governments (some interacted minimally with their own governments) were able to engage in the new interchange and the horse-trading, to some degree, which is required to achieve something. This can then be presented as a possible basis for a truly governmental discussion. It has other flaws; do not let me suggest this is a perfect model, but this is a possible route which is superior both to the Brandt route and to purely academic enterprises.

There is a fourth model which struck me forcefully in the run up to this week's IMF and World Bank meetings. There are not, at present, structures which permit middle powers to pursue their interests jointly, as there are structures for other groups that do pursue their own interests. In the run up to the IMF and World Bank meetings, the "Group of Ten" meets and the senior officials agree, to the extent that is possible to agree in advance, as to their positions and the crucial questions. The "Group of 24" in the developing countries do the same. There are some other regional groupings that try to do the same. The

Commonwealth group tries to do the same but it is not structured appropriately for the pursuit of joint interests. The point was made that all that Canada and Mexico have in common is their neighbour; in the case of the Commonwealth all that they have in common is the language and some other traditions, but it is not a commonality of interests and there is therefore not so much possibility for the achievement of relevant sorts of compromises. There is no occasion on the run up to a serious meeting of this kind where Canada, Mexico, India, Sweden, or whoever (this is an important question: who is the middle power for purposes of this kind?) sit down at an intergovernmental level to consider where their interests lie. If there is such a thing as a "middle power interest" then, presumably, it is not perfectly realized if these powers develop their positions in separate blocs where they are on the periphery in both of them. There is always a danger when one thinks of the endless numbers, more and more meetings, more and more ways of structuring things; but either we are serious about a middle power joint interest and the "resurrection of middle power diplomacy" or we are not, and, if we are, in some of the crucial areas the structures for its pursuit do not exist yet. I wonder whether I can smoke out the speakers a bit on the question of whether they might exist and what they might look like.

Prof. John Holmes
(University of Toronto):

If I suggested that the U.S. was still exercising leadership in the IMF and in the IBRD. I had no intention of saying it; what I intended to say was that one got a feeling that the UN was irrelevant and they were not interested, they still tend to assume that the organizations had a role, they were not very happy with what they were doing, rather that they were exercising leadership and that they would have seen for themselves, given the various banking crises, that there was at least some need for some kind of international institution.

Hon. Maurice Dupras
(Member of Parliament):

I want to follow on the remarks made by Prof. Helleiner on international institutions and the academic state in which both the UN and the OAS are finding themselves. The survival of these institutions depends on the middle powers because they are the ones who need these institutions the most, not the superpowers. Maybe it would be to the advantage of one of the two major powers if they were weaker than they are now. We, the middle power countries, must try to strengthen these international institutions and see that they survive and play the role that they were intended to play when they were first created. Mexico and Canada have a common destiny in making these institutions work and that is why you will find in my papers that I support the movement that wants Canada to become a full member of the OAS.

The political environment makes it difficult for Canadians to be closer and to have a better communication with Mexico. We shall have to surmount the differences in the political reality of both our countries. It is much easier and more natural for Canadians to turn to the U.S., France or the U.K. because of the similarity of our political environment. It is a little difficult and it requires more effort from us to turn towards Mexico or other countries of the South, since the political environment and reality is quite different from that of Canada. I agree with Mr. Dufour when he says that we both, nevertheless, have succeeded in demonstrating that we can put mechanisms in place in our particular countries to overcome some of the difficulties. In Canada we have demonstrated that we can overcome our domestic problems, I speak of course of the language, the difference in languages; the regional, economic disparities that we have, in a way, eliminated over the last ten, fifteen years. If we can surmount all of our domestic problems in Canada we could, perhaps, be more active on the international scene and assist, along with other countries like Mexico, in bringing this expertise to bear on international institutions, at least the two major ones; I speak of the OAS and the UN.

Prof. Víctor L. Urquidi
(El Colegio de México):

I have five points to make, starting with this expression of "smoking out," what does it mean? I hope that Prof. Holmes will be more concrete on one or two questions that he raised, mainly how to influence the U.S. The U.S. is not only Reagan, look back a little bit, look at Carter and his administration, look at Nixon's administration with regard to Latin America for example or to Mexico. Relations between Carter and Mexico were pretty bad and he did very little to improve them after his initial "faux pas." The story is that the Pope came here and kissed the ground when he got off the plane and when Carter came here he kissed the subsoil, and that explains many things.

My second point is on the question of how to influence the U.S. by middle powers. When you talk of Mexico and Canada there is an assumption there of symmetry, but there is no such symmetry, it is an asymmetric situation in which I am sure Canada has more influence, whatever it may be, on the U.S. than Mexico has or may have. Mexico today is in a very weak economic and financial situation which has to do with its economic survival for a number of years and that certainly limits Mexico's policies and its direct or indirect influence through other nations and through the UN.

Thirdly, it is very sad but the U.S. is very badly informed on Latin America, I mean people at large, and even on Mexico. This has been proved again and again in all kinds of surveys and discussions and that is a problem that affects, to a greater extent, the U.S.'s attitude to Mexico or the attitude in government and congress circles.

My fourth point is that there is an awful lot of oversimplification going on as has been mentioned here: North-South; South-South; these are just big simplifications, so is East-West because of what was said about the changing relations within the East and also the attitudes of the West towards the East and the interdependence that has been created in the economic sphere. There is a very strange ambivalent relationship of East-South, the relations of the socialist countries to the South which is very selective and also very hard to define in terms of effective results but it exists in the rhetoric and the politics. This leads us to ask ourselves seriously what are the regions today, which have been mentioned in the discussions, what is Latin America? We are in the process of economic disintegration, at present, with diverse interests. The Falk-

land conflict also showed up political divergences. We are also in the process of developing separate interests between the more industrialized countries of Latin America, the middle Latin American countries and the really backward countries that are falling behind, they are being left behind by all kinds of circumstances. The Central American case may be the most dramatic. This is also true in other regions such as Africa which is the slowest growing area of the world today. There again you have the divergence between leading African countries and a mass of smaller stagnant countries with deep problems even for nutrition, for their people's most essential needs. The Asian countries also have divergences amongst themselves which are worth taking into account and they have this further problem of how to relate, in the Pacific Community, to Australia, Japan and China and perhaps other countries across the Pacific.

You have to ask yourself what a region means, what a regional grouping of countries means. I would like to bring to mind this phrase, which I believe was developed by a Dutch minister, on "like-minded countries." Can we find the groupings? We will have to accept the regions; they do exist: there is the Latin American group in the UN, the African groups, etc., but can we cut across all that at the same time and bring together "like-minded countries" on certain issues as Prof. Helleiner was saying?

Prof. John Holmes
(University of Toronto):

The trouble is that both Prof. Helleiner and Prof. Urquidi have provoked me to think of ideas I have not sorted out. Perhaps I can suggest a dilemma in my mind: to begin with, Prof. Helleiner presents an extremely interesting idea, his suggestion that there was not a good place in the structure of the IMF and other places of that kind for the middle powers to get together and make specific proposals. My first reaction was: "Yes, that is a good idea, let us do it." And maybe it is, the slight doubt I have is whether in fact we want to make a middle power bloc which would put up proposals, or whether our job is leavening. I am thinking of a time in the 50s when the middle powers, particularly in the association of the Secretary General, not just in the UN but elsewhere, were peculiar-

ly effective, and I do not think we ever thought in terms of a bloc. When we would try to do so there would be conflicting resolutions in the General Assembly that were absolutely impossible to bring together and we were always scurrying around, on Algeria and questions of that kind, trying to find some kind of common ground in a meaningless resolution; on the other hand it does mean something in the nature of a gesture.

We have had two interesting cases where Canada and Mexico or Canada and a Latin American country can be useful, one was the CIEC in Paris where Venezuela and Canada were appointed Chairmen. The conference was not a total success; on the other hand I do not think it was attributable to the Chairmanship; it looked like an interesting idea. Then the Cancun conference where there was something to be said for Mexico and Canada (Canada was a bit of a fill-in for Austria but nevertheless there it was) being useful because they did come from different groups, two countries which had good relations, they could talk to each other but, nevertheless, what made them important was that one was a member of NATO and OECD and the other was associated with the OAS and more closely with the Third World. I would like to hear some pursuit of this.

We have to think of a way of affecting the Reaganites and hope that this was an aversion that would pass. This is the kind of optimism one needs. Practically all my American friends think the same way we do on the subject and one cannot help feeling that there will be a shift to a better grasp. Prof. Urquidi is quite right in saying that a lot of the problems we have now did begin in the Carter regime. Mr. Carter was perceived more favourably in Canada than Mr. Reagan although it is hard to generalize there. Nevertheless, he visited most capitals in the world but never went to Ottawa. He was responsible, to a considerable extent, for what I think still is the most offensive act to the U.S., aside from walking out, that was the treatment of the agreement on the East Coast fisheries, which he never managed to get considered in the Senate. Mr. Dupras would know more about this.

Therefore problems do exist and this American disaffection with international institutions has been growing and it is not just a matter of dealing with the present situation. Whether Canada has more influence than Mexico, I do not know, we are not terribly popular either, at the moment, for the same sorts of reasons as have been pointed out. Linkage is something that exists, whether it is specific or

not, it is psychological, it is human and there is considerable worry about that.

When talking about the regions and disintegrations one is again prompted to think in two directions. When I was looking, within various regions, for some kind of evidence of influence on the major power, I was looking for signs of disintegration. I am not so sure we want the regions to be quite as closely-knit blocs as they have been; there is something to be said for their becoming a lot more flexible. If we want to de-bilateralize international politics there is a lot to be said for the flexibility of countries not being too much attached to blocs; on the other hand, there is a very strong argument that if one does not have certain voting blocs within the UN an anarchy will exist.

During debates on the "Law of the Sea" one of the things I thought was the most fascinating and the most encouraging was the way you have functional and shifting blocs -quite pragmatic. Canada, to a considerable extent, belonged to the Coastal States group: Australia, Brazil, Kenya, it had nothing to do with the ordinary kinds of alignments and then you would shift to another group. This seems to me a healthy way of operating and the more you can get that kind of flexibility perhaps the more progress we can make.

Prof. Theodor Cohn
(Simon Fraser University):

I would like to expand a bit on an issue raised by Dr. Urquidi and Prof. Holmes, relating to the question as to how well placed both Canada and Mexico are to be restraining influences on the superpowers today. Prof. Cox talked about "bread and butter" issues with which they are concerned and I believe that both Canada and Mexico are excessively concerned with these issues today. A trade report just came out in Canada in which there is an almost complete veering away in trade from the idea of the third option of diversifying trade relations and accepting the fact of coastal trade ties with the U.S. and certainly in terms of Mexico's foreign debt crisis and how it has affected use of its oil exports, etc. A question can be raised whether both countries, in some ways, seem to be making efforts to move closer to the U.S. economically. I therefore question why there seems to be this optimism that we are so well placed to be the restraining influences.

Along these lines I would like to raise one other question and that is the issue about the middle powers which was raised by Prof. Holmes. I am a little confused as to where the in-between countries fit, those which are a step above the middle powers but are not superpowers. In view of the ominous task of being a restraining influence on the superpowers and the concern of middle powers, like Canada and Mexico, with "bread and butter" issues today, why would countries in the European Common Market, Japan, perhaps China, not be more realistic, as restraining influences, than the middle powers?

The last question I would like to raise is whether there has been some confusion with the middle powers' desires and abilities. We therefore have the desire and the need for these international organizations along the lines of the issues I previously mentioned. I would question whether we are the ones most able to be the restraining influences just because we have these desires and I wonder if the issue of desire for these international organizations has to be separated in some ways from our abilities; it does not mean we are also the most able to restrain the superpowers.

A Canadian delegate:

I just have a few remarks which really continue the line that was started by Prof. Cox. I found all of Prof. Holmes' paper eminently sensible but I must say that there were times when I was reading it when I had the feeling that he was recommending a kind of fine tuning which just is not practicable in the international politics of the present day because of the structural transformation that involves a much higher, more significant role for domestic opinion in the whole area of international affairs. The issues that we are confronting, such as between Canada and the U.S., and Mexico and the U.S., are largely products of the process of politicizing economic relations which has been going on for a long time but which at last we have begun to notice and so proceed much more clearly than we did in the past. One aspect of that has certainly been an increasing prominence of domestic pressures that make consistency and predictability almost unattainable.

Domestic pressures really demand a more publicly rationalized stance in foreign affairs. Our Mexican colleagues should know that in Canada there is a very strong feeling right now that we should stand by the U.S. in thick

or thin. It is not likely that Canada and Mexico, in the present circumstances, could join in the kind of partnership that Prof. Garza mentioned, which has even a slight cast of anti-Americanism. The present opposition leader is on record as having said that we should support the policies of the Reagan administration in Central America, whatever they may be, that we should give a "blank cheque" to the U.S. in Central America. However silly a remark that might be, it reflects the deep and now increasingly prominent current of Canadian opinion.

Domestic pressures can also work to make me a little leery of Prof. Holmes' recommendations when they come to working with multilateral organizations. When one looks at the U.S. and NATO in the light of the present issue of nuclear modernization and the placement of Pershing Cruise missiles in Europe, one can excuse the U.S. for taking inter-lateral initiatives from time to time, insofar as they could hardly be said to have received a clear message from their allies, when it is true that the request to carry out nuclear modernization emanated from the West Germans. The man, in fact, who articulated that request seems to have been spending the last six months, since he left office, doing as much as possible to put a good deal of light between him and the policy. Consistency of one lesser power is difficult enough but consistency of a multilateral alliance has got to be seen as just increasingly or decreasingly likely.

The importance of domestic opinion also applies to the U.S. and here is where I find it hard to accept fully the argument for quiet diplomacy. It seems to me that this is particularly so in the strategic realm which is certainly one in which Canada wants very much to influence American policy in the area of nuclear weapons.

The policy-making process in the U.S. has become so rigid, so shot through with irrationality, so imbued with strange identifications whereby, for example, the MX missile becomes the kind of virility symbol for the administration and is assessed on that basis rather than in terms of its strategic and political importance. The only way to affect that process is going to be through some kind of public forum. It may indeed be a very good counsel to suggest that public stances, which embarrass the administration may entrench it in actions which we do not like. This is of course a matter of tactics and strategy, like anything else, but quiet pressure is just not going to work as well as it may once have done; indeed, our own govern-

ment has, in areas such as the acid rain controversy with the U.S., gone public in a very, very substantial way even to the extent of allowing officials to appear before American congressional committees, thus giving a great deal of tacit support to nongovernmental organizations that conduct lobbying operations in Washington and achieve ministerial pronouncements that are much more frequent and critical than they used to be.

In overall terms, while this does not lead me to doubt the eminent wisdom of the recommendations that Prof. Holmes has offered, they have to be qualified by a realization that among the fundamental factors overhanging Canada-Mexico relations today should be those of unpredictability and inconsistency, largely occasioned, among other factors, by public opinion and that these should now be seen as parts of the structural elements of the international environment.

Prof. Jorge Alberto Lozoya
(El Colegio de México):

Since it is my impression and also logical that the first meeting, the first session, sets the general framework for the further discussions, I would just like to make a couple of points that have already been mentioned but probably in a different light.

Firstly, I would recommend that we think twice before we call Mexico a middle power; I am not sure that we can handle the term. It may sound polite for our Canadian friends to call us a middle power but, in international relations, when you refer to middle powers you refer to Canada, Sweden, Italy, Spain sometimes, but not Mexico; for this I would probably refer to Canadian public opinion. Do you think that Canadian public opinion would call Mexico a middle power? I strongly doubt it. Then I would follow in the same line as Prof. Dufour because there is a tendency in academic meetings to be polite and to start talking about common interests and attitudes of both countries; this has been done and it is extremely important.

However, in the last comments, it has come out that there are not that many common interests between Mexico and Canada. At a multilateral level certainly we, as Mexicans, tend to see Canada as a country of the North and the gentleman talking just before me said that Canadian public

opinion has the tendency now to reinforce this view of themselves as a member of the Western alliance of which Mexico is not a part, in formal terms, of NATO and certainly not of the basic defence structure of the U.S. I would question the idea that the Mexicans would go out and defend the Western world in case of a general confrontation with Europe in the same way that the Canadians would. The Falkland War is probably a good example that we do not share that much. I am mentioning this because it is useful for our discussions since we are not government representatives. Prof. Székely mentioned that we should be pragmatic and, as academics, should contribute with creative thinking and we can probably discuss a number of attitudes that are not usually considered by government representatives.

The last question would be the ambivalent attitude of Mexican-Canadian public opinion towards the U.S. especially say in the north of Mexico and in the south of Canada. I am not too sure that everybody in Mexico and in Canada is as anti-American as some people would like to think. In Mexico the economic and the political crisis which it is going through is a very complex process. There are many symptoms showing that not everybody is so anti-American as, probably, say, the government would like to think; this has implications for foreign policy. I have been supporting the idea, for instance, of a large public opinion poll in Mexico as to the Mexican-Central American policy of this government, as to how far it would be supported by Mexican public opinion especially in sectors that are politically, economically and socially of extreme relevance. I am not sure that there is as large a consensus as was traditionally thought; one of the basic elements of Mexican foreign policy was the idea that it had the largest national consensus behind it in terms of the action of the federal government. I am not very sure that this is the case today essentially in basic issues like Central America because of the economic and political crisis we are going through.

Probably the ambivalent attitude of a large part of public opinion, in the case of Canada, can also be the case in the Mexican situation. There may be contradictory signals coming from our public opinion vis-à-vis what we can do in relation to our extremely complex ties with the U.S. and, in that context, with Canada or other middle powers.

Prof. Zavis Zeman
(Institute for Research on Public Policy, Toronto):

I am very pleased to see that we are getting closer to the "nitty-gritty" of the debate, once the niceties and diplomatics are over. I would like to add one element which seems to me to have been relatively slighted over and that is the Pacific Community. What role would the Pacific Community play in the future of both our countries? A lot of emphasis has been put on the U.S.-Soviet relationship, but the U.S.-Japanese relationship also exists which may be more important for us in economics. Perhaps the role of Japan and the Pacific Asian world should be added on the agenda for the next two days.

Prof. David Pollock
(Carleton University, Ottawa):

It has been a very full and substantive morning and I would like to make a comment of slight levity just to really make my point. There is the story of the UN staff member who tripped on the 38th floor and fell over the side. One of his colleagues on the 19th floor looked out and saw his friend in the air and said: "What in the world are you doing out there?" and the chap in the air said: "So far, so good." I am a little concerned that there is a feeling of impending and inexorable chaos and doom and there is not much we can do but watch the figures, ourselves included, flying over. I am very much aware of the complexities and the crisis nature but I wonder whether we cannot spot something positive. In the light of the new words that we have been hearing this morning I have coined my own of "wistful optimist" which I would like to call myself. I found six points emerging from the speakers and the questions that give me some wistful hope that we are not spiralling inexorably without control:

1) We must link political or security issues with economic and development issues.

2) We must link diplomatic efforts with research; the Brandt Commission was utilized like the proverbial bee which stings once and then dies.

3) We should strengthen existing institutions and not create new ones.

4) We focus on specifics in contrast with generalities.

5) We ask ourselves where could middle powers find middle ground - the concept of the empathetic neutral.

6) The academics could provide some background documents for the policy-makers and I am not so sure there is not a role here for such background documentation for concrete policy.

Let us just take three points that came up: regional institutions versus local institutions, versus strenghthening. What do we mean by regional? What do we mean by middle powers? What does the like-minded concept mean in that approach? What about the CIAC and the other experiencies? We could focus in the same studies on ways to strengthen existing institutions in contrast with creating new ones. Here, another question came to my mind: Is there a process we could use to meet with other middle powers, however defined? Not to create new institutions to meet with the Swedes or the Dutch or whoever we might think are elegible for the title of middle power.

Secondly, it would be extraordinarily useful to have a study made on the extent to which the U.S. might want to use the Contadora group; not today but maybe tomorrow, maybe before the elections. It might be possible that the U.S. may find a way not to send a representative to its next meeting. I should like to explore that possibility. Though the U.S. would be the last to admit they seek alternatives that are not necessarily negative.

We perhaps could therefore look at what could be done by Canada, maybe a study, a mini Marshall Plan on the economic and social reconstruction of Central America, when and if there is stability. Have it ready then, not start it then.

To finish off on economic issues I would like to add that I believe that there are commonalities. Looking at trade debt and technology transfers, all of which came in today, one can see that there are enormous identities between Mexico and Canada and others. In Canada we look at Mexico, Brazil, Argentina, Venezuela and suddenly Canadians are aware of the fact that the system of which they are a donor is in great crisis. So we are aware of the debt problem but we have not really thought about what we should be doing about it.

Finally, on technology, there are no two countries in the world that would be more amenable to paying practical attention to what should be the contents of a code of conduct on transnational enterprises than Canada and Mexico.

I do sense the difficulties that have been posed and the feeling that the world is in an East-West, North-South downturn but I am not so sure that there is not some ground for wistful optimism.

Mr. David Hilton
(Bank of Nova Scotia):

We Canadians want to be the good guys, the boy scouts, the interveners, we want to find the middle way, we also would like to be applauded as we do that. Mexicans are by and large, in many of their interventions, saying they think there is a role there. Before we do break our elbows patting ourselves on the back we should think about the consistency of our policies in those forums where we, as nations, have had influence and power and our great role as multilaterists there is sometimes lacking.

My own country's influence has waned in the Commonwealth Caribbean, particularly; our interests have not been maintained to the same extent that they were historically. We have been quite prepared to wash our hands of responsibility in that area, especially in the amount of representation we give those countries that we sit with in the international financial institutions. Likewise Mexico's track record in the Inter-American Development Bank has not been sparkling, at least the interest with the smaller countries in South America has always failed somewhere after they have been able to take their own bit off the top of the programme.

The point that I am making is that yes, we are multilateralists and we really do have a great interest in making sure that there is a multilateral system. We use that for our own benefit and we have to be very careful, particularly in our dealings with the developing countries, that we have some consistency, and that in those areas where we do have influence and power we should at least act with equanimity as we do when we worry about our relationships with the superpowers.

Prof. Humberto Garza
(El Colegio de México):

We should differentiate between the multilateral level concerned in Mexican-Canadian relations and the strictly bilateral level. The multilateral level offers far more opportunity for cooperation and interaction than the bilateral level. In this last point it is the specifics of economic cooperation, specifically trade and oil, trade on the part of the Canadian farmer and oil being provided by Mexico, that is providing concrete points of approaching each other.

As far as the definition of Canada and Mexico as middle powers or lesser powers, this has been the outcome of looking for more common interests or for a middle ground to bring the two countries closer together. But, irrespective of the way "middle powers" are defined, I believe that it was not a self-definition by Mexico, it was not a definition that was originated by our decision-makers but it was somehow imported from the politicians and the sociologists of the U.S. who, at the point of the Mexican oil boom, considered our country a viable middle power.

Prof. John Holmes
(University of Toronto):

I have been accused of excessive optimism. Optimism is an instrument of policy; I was just as pessimistic about what we could do as anybody here and I entirely agree with all the reservations. I just do not like the idea of sitting back and doing nothing. What I was really trying to do was to find out the kinds of things that we might try to do specifically as Mexico and Canada, as middle powers or whatever we are, I do not worry about categories, and the last thing I would want to suggest is that both our countries are going to save the world together; I was trying to think of little things we can do. I am sure that the larger part of the European Community has a tremendous amount to do, so this was an idea of salvation.

I would also like to renounce the view -I think I have a fairly good record here as having combatted it for a long time- that Canada has a divine mission, as a middle power, to mediate in the world; this is entirely mistaken. But should we be bedevilled by a debate about quiet or loud diplomacy? You have to calculate whether it is going to be quiet or loud, depending on which kind works.

Prof. Helleiner was right when he expressed problems of Canadian public opinion, the difficulty of fine tuning. I am very well aware of the attitudes that he expressed and, perhaps, I was a little hesitant about recommending that we denounce the U.S. because this would go against some kind of specific and pragmatic criticism of U.S. policy. I would like to see this on certain occasions, but great rhetorical denunciations of American imperialism are not only unwise but they would not work in the U.S. and the Canadian public would not like them. What we are trying to

do is pick out certain areas where we might be useful and whatever shifts there may be in Canadian opinion it generally would be quite happy with Canadian professional diplomats who would be doing what they can in international institutions to try to relieve tensions and come up with the kinds of ideas, the sort of things that David Hilton was talking about and that Prof. Helleiner has in mind. You would get passive support.

Furthermore, I am worried about the word anti-Americanism because it is a rather dangerous attitude which is loose in the world but it must be distinguished from specific criticism of American policies.

Finally, Mr. Hilton made a very good point and it has worried many people. It is terribly easy to do these things rhetorically such as in the North-South discussion, it is not at all difficult to make a very good speech about the rich and the poor not being able to live together, etc., but one has to be consistent, one has to do things so as to be influential.

SECTION 2

# CHANGING INTERNATIONAL ECONOMIC RELATIONS IN THE 80S

# CHANGING INTERNATIONAL ECONOMIC RELATIONS IN THE 80S*

*Gerarld Helleiner*

## 1. INTRODUCTION

This account of international economic relations has only two main points. The first is that roughly forty years have passed since the founding of the Bretton Woods institutions and the GATT, a period during which there have been both remarkable economic growth and enormous changes in international power relationships and the functioning of the world economy. The world economy is passing through the most difficult period since the Second World War; indeed, there are many who would say that it is very far from through its difficulties as yet. It is undoubtedly time for a major review of the world's international economic institutions: for what many are now calling "a new Bretton Woods."

The second point is that smaller and middle-sized powers have the most to lose from weak or disintegrating international economic arrangements. They are typically more dependent upon the effective functioning of international markets for goods, services and capital; and suffer the most from externally created economic shocks. At times of overall instability they face the greatest uncertainties. In particular, they risk multilateral, nondiscriminatory and transparent arrangements being replaced by the rule of the powerful on the basis of whatever principles they find at any particular time to be expedient. It is especially important for middle powers to find ways to promote their interests in a stable and equitable international economic order today, when some of the major powers have acquired governments aggressively antagonistic to traditional multilateral and internationalist approaches. From these two points, which I propose to develop, follow certain fairly obvious conclusions for countries like Mexico and Canada.

* See Prof. Helleiner's opening comments in Discussion 9/26/83, SECOND SESSION.

## 2. CHANGE IN THE WORLD ECONOMY

The trauma of the Great Depression and the Second World War imbued the governments of the Allied Powers with unusual vision and determination with respect to international economic affairs. Taking a much longer-term view than is normal in such matters, they set about constructing an international framework that would reduce the risks of cumulative downward spirals like the one that they had just experienced. The result was a proposed tripod of international institutions - the International Monetary Fund, the World Bank and the International Trade Organization (ITO). Neither for the first nor the last time the U.S. Congress, failing to ratify the Havana Charter, prevented the full realization of far-reaching internationalist innovations, and the ITO never happened; instead, a second-best substitute took its place, the GATT, which, rather than being an institution like the IMF and the Bank, consisted of no more than a multilateral contract covering a particular (fairly narrow) range of trading issues.

Few would maintain that the IMF, the World Bank and the GATT (which henceforth I will refer to as the Bretton Woods institutions) have met all of the aspirations of their original architects. But the world economy did experience a remarkable period of rapid growth, expanding international exchange, and relatively full employment in the industrialized countries in the 25 years following the Second World War; and the Bretton Woods institutions can share some of the credit. The IMF's exchange rate rule imparted a degree of order to international monetary events - if only by reminding members of the international community of agreed norms; and it provided limited amounts of short-term credit to countries in temporary balance of payments difficulties to reduce the likelihood of their resorting to "measures destructive of national or international prosperity" (Article I). The World Bank directed long-term credit which private markets would not otherwise have provided, first to the war-devastated areas for their reconstruction, and then, as now, to the developing countries for their overall growth and development. The GATT generated a series of tariff bargaining rounds that resulted in very substantial reductions in tariffs on manufactured products in the industrialized countries. Perhaps equally important, its basic principles of nondiscrimination, multilateralism and transparency -even when abused in practice- set standards against which the trading practices of individual member countries were judged.

All three institutions adapted to international change over the postwar period; as their membership expanded, new problems emerged and new approaches had to be devised. But none of them were _ever_ at the centre of global decision-making in their areas of responsibility; in a world economy made up of sovereign nation-states of varying size and influence, the independent decisions and policies of the Great Powers (and particularly the U.S.) remained the key elements. Moreover, the changes in the world economy have been so rapid and so great as to outstrip the adaptive capacities of even the most flexible international machinery, and this machinery was, in fact, no less creaky and slow to respond than any other. The 1970s and early 1980s have been characterized by severe disorder in the international economy, a disorder that has generated uncertainties that have impeded efforts to get "on track" again, and sapped confidence in the stability of the system itself. The uneven signs of global recovery are still far from reassuring as to the medium-term or longer-run global prospects. Who among us is confident that existing international economic machinery will get us safely through to the end of the century - with the provision of adequate international liquidity, smooth adjustment to irreversible economic change, confidence in financial systems, reasonable overall stability and growth, and equitable sharing in the fruits of such progress as the world continues to enjoy? Do we not need now to reassess the adequacy of the Bretton Woods system, as adopted, and reconsider the requirements for international economic order, not to speak of overall progress? Must we continue to back into the future, one crisis at a time?

Among the major areas to which an overall review of international economic arrangements must devote attention (and this is not an exhaustive list) are:

(i) the implications of the vast increase in the degree of international economic interdependence that has resulted from national liberalizations of international exchange and increasing "openness";

(ii) the adequacy of existing arrangements for the provision of international liquidity, and in particular the appropriate role of the commercial banks therein;

(iii) the new salience of energy issues at the international level, and particularly the desirability of more stable arrangements for the pricing and supply of petroleum (as well as other primary commodities);

(iv) the deteriorating environment for international trade as non-tariff measures, often discriminating and _ad hoc_ in character, take over from tariffs as the key governmental influences on its stability and pattern;

(v) the adequacy and stability of arrangements for the international flow of long-term development capital;

(vi) the stability and appropriate alignment of international exchange rates and more symmetrical mechanisms for balance of payments adjustment;

(vii) the emergence of a more complex and multipolar world economy, in which universality of participation must somehow be combined with appropriate division of responsibility and with efficiency in new, credible forms of "global management" and power-sharing.

## 3. MAJOR ISSUES FOR REVIEW IN THE INTERNATIONAL ECONOMY

### (a) Taking Account of Increased Interdependence

The fact of "international interdependence" has become something of a cliché in the industrialized countries in recent years. But this reflects the undoubted fact of enormous changes -as world trade grew in the quarter-century 1950-1975 at about double the rate of growth of world production; liberalization of exchange controls generated truly internationalized money and capital markets in which vast cross-border flows take place around the clock in a variety of closely interrelated "markets"; transnational corporations, based in a growing number of countries (including developing ones), integrate their worldwide operations within their own internalized planning systems; and in a whole variety of other areas -space, the oceans, the environment, data flows, etc.- the resolution of policy problems is impossible within traditional national boundaries.

Whether in industrial policy or monetary affairs, pollution control or the encouragement of local culture, governments -even the most powerful- can no longer act independently of the actions of their neighbours. The international implications of domestic policies must increasingly be considered by national policy-makers, particularly by the most influential in the global economy, at the same time that international constraints and influences must increasingly be taken into account in the formation of domestic policies. Despite the new pervasiveness of such policy "externalities," most decision-making continues to be done at the level of national governments. At a minimum, regularized international consultation and coordination in trade and financial affairs is increasingly necessary. The main instruments to this end so far are highly selective and im-

perfect - within the OECD, the BIS, and the Western Economic Summit, rather than in more multilateral bodies. Proposals for an Economic Security Council or some other regular multilateral forum combining the mandates of the IMF, the World Bank and the GATT deserve further careful consideration. In the meantime, an immediate start might be made by increasing the frequency of the meetings of the Interim Committee of the IMF while expanding the formal participation and servicing role for these meetings of the GATT, the World Bank and the UNCTAD, each of which at present does its own independent reviews of the changing state of the world economy.

(b) Improving the Mechanisms for the Provision of International Liquidity

Arrangements for the provision of international liquidity have been a recurring source of concern over the past 15 years or so. The unsatisfactory character of the U.S. dollar-based system led to the creation of the IMF's special drawing right (SDR) at the end of the 1960s and an agreement to phase gold out of the liquidity system and make the SDR the central reserve asset in the early 1970s. International liquidity creation during the 1970s and early 1980s however, was, if anything, even more sporadic and unpredictable than previously. The SDR accounted for less than 3% of total world reserves at the end of 1982, and allocations have for the moment ceased. The principal sources of expanded liquidity in recent years have been the increased price of gold, holdings of which were highly concentrated in a relatively few industrialized countries, and accelerated increases in holdings of national currencies, primarily but no longer quite so overwhelmingly the U.S. dollar. The tremendous increase in international lending by commercial banks in the 1970s added to the "effective" available liquidity, at least for those countries that the bank regarded as creditworthy. The unreliability of this liquidity system has been dramatically demonstrated during the past two years as foreign exchange reserves have fallen (non-gold reserves fell by 10% in dollar terms from 1980-82), the commercial banks cut their international lending to a trickle, and emergency short-term credit arrangements had to be cobbled together by the IMF, the BIS, the U.S. and other governments, together with the larger commercial banks. The inequity of the distribution of expanded international liquidity had already been evident before the current liquidity "crisis": multilaterally created sources of liquidity (SDRs and other IMF drawing rights) were held

back because of the "adequacy" of commercial sources, leaving the less creditworthy (the poorest) without the share with which the international community had agreed to provide them in the Bretton Woods arrangements. The recent Commonwealth report* puts the need most succintly:

> "A stable, open and equitable international economic system depends upon the availability of adequate liquidity for all its member countries. Machinery for its provision is a fundamental requirement of an effectively functioning international monetary system... If there is to be increased stability and predictability in the provision of international liquidity, the most obvious mechanism for doing so is through the IMF which was originally established, in large part, for that very purpose... Not only must the longer-term decline in the relative importance of IMF-created liquidity be arrested, but conscious effort must be expended in order to restore and consolidate the IMF in its appropriate place at the centre of the global liquidity system."

### (c) Seeking Greater Stability in International Oil (and Other Commodity) Markets

Disruptions in international oil markets were major destabilizing elements in the world economy of the 1970s. As has been clear enough in other international primary commodity markets, it is not easy to arrive at price stabilization or supply-security arrangements. It is nevertheless now quite clear that the current degree of instability and uncertainty in oil markets is enormously damaging both to exporters and importers. Sudden sharp changes are not the only means of achieving medium-term and longer-term adjustments. In commodity markets, as in foreign exchange markets, there is much to be said for "smoothing" changes and minimizing the prospects of periodic "crises." It is obviously impossible to forecast or prevent the market effects of political disturbances such as the Iranian Revolution; but it would be worth another try at reducing unnecessary uncertainties of more "conventional" origin.

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* <u>Towards a New Bretton Woods</u> (London, September 1983)

Present circumstances may be propitious for serious discussions between oil importers and exporters, as short-term price prospects are unusually uncertain and new energy investors in the North have acquired an interest in higher and predictable prices. Many would say, along with Keynes at the time of the first Bretton Woods conference, that the costs of pointless volatility in other commodity markets are also high. Some of them have again in the last few years been demonstrated. Despite the undoubted difficulties, there remain good reasons for seeking to smooth major primary commodity markets and to support the real value of export earnings in the poorest countries.

(d) Rebuilding the Trade Regime

The GATT has never been as strong a part of the international economic institutional machinery as the Bretton Woods architects originally sought. Major gaps in coverage were left by the political processes of the 1940s and not least by the final defeat of the ITO: trade in agricultural products, restrictive business practices, state trading, international commodity trade, non-tariff measures affecting trade. As tariffs on manufactured products came down, new forms of non-tariff measures became increasingly important, and, despite valiant efforts in the Tokyo Round, adequate new codes governing their use have not yet materialized. Those negotiated in the GATT remain full of ambiguities and, in any case, have not been accepted by a majority of members. The crucial "safeguard" clause continues to be disregarded, and efforts to reform it have come to nought. At the same time other new issues have arisen for which the GATT had no provision: trade in services of various kinds, intra-corporate international trade, trade-related investment policies, etc. Some of these have been taken up in other UN forums with consequent jurisdictional disputes and confusions.

In the words of the 1982 Commonwealth report on protectionism:*

> "International trade today is evidently in large part not governed by the principles and rules formulated by the original negotiators of the GATT. A high proportion of trade takes place on a basis other than that of unconditional m.f.n.

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* Protectionism, Threat to International Order (London, 1982)

> tariffs; discrimination is found both at a general level, as between different 'tiers' or trading blocs (the OECD, the EEC, etc.) and selectively, in respect of particular countries and industries. There is wholesale abuse or evasion not only of GATT principles but even of prescribed GATT rules, particularly in respect of quantitative restrictions; there is growing resort to non-tariff measures for which there are no GATT rules. Bilateralism has been substituted for the envisaged multilateral approaches to trade negotiations, policy debate and dispute settlement. As non-tariff measures have proliferated, the transparency of trade barriers has been reduced, making monitoring, surveillance and assessment of effects much more difficult. In general, much higher proportions of international trade are being 'administered' and 'managed', both by governmental and private transnational actors, than the original negotiators anticipated."

The perceived inadequacies of the GATT -or some would say, unwillingness, on the part of signatories, to take on the responsibilities as well as the advantages of the agreement- have kept large numbers of countries (including, of course, Mexico) out of formal participation; against 146 member countries in the IMF, there are only 89 signatories to the GATT. Weakness of the institutional machinery together with increasing pressures from more difficult world economic circumstances have bred increasing uncertainties regarding the future of the trade regime. Even in the countries traditionally most supportive of liberal trading principles, protectionist pressures have been rising and the value of the GATT has increasingly been questioned. "What's in it tomorrow for us?" has increasingly been the question asked by national policy-makers (and it is too frequently incorrectly answered) rather than "What's in it for the world over the longer-run?"

In the current recession the links between trade policies and financial issues have been dramatically evident, as countries struggling to service external debt face increasing protection against their exports from the creditor countries. In some instances debtors have been advised, under threat of withheld credit, further to liberalize their imports while there were no corresponding pressures upon creditors; fortunately, this narrowly conceived and dangerous advice was infrequently accepted. Rarely were trading and financial issues adequately

discussed in an integrated fashion, since neither at the national nor the international level were institutions, departments, ministries, or conferences typically structured to promote such integrated approaches.

If there are problems relating to the capacity of the trading regime to handle the disputes of the 1980s and 1990s, those most affected are likely to be the smaller, weaker and more trade-dependent countries with the least capacity to defend themselves in a disordered world.

(e) The Need for Increased Long-term Capital Flows for Development

If development is to continue in the less developed parts of the world economy, there must be a stable and substantial international flow of long-term capital in support of the process. The risks of undue reliance upon short-term finance of the kind which commercial banks typically provide have been made painfully evident during the past year.

Special refunding arrangements may be necessary to free the world economy of the "overhang" of inappropriate short-term debt, although how to apportion their costs and benefits remains tricky and controversial. Whether or not such arrangements can be agreed on, inappropriate accumulation of short-term debt must be prevented from developing again. This will involve a relative increase in the role of long-term capital flows in the transfer of resources to developing countries.

An international regime supportive of longer-term private flows to the commercially creditworthy would involve measures relating to bond markets, new capital market instruments, the rights and obligations of direct foreign investors, and an expanded role for official intermediation, probably through the World Bank group. At present most observers see direct foreign investment as the most likely form of expanded long-term flows for development; but there are major problems surrounding this form of international interaction, and it will be a great challenge to achieve an appropriate balance between borrowers and lenders in this sphere. A stable and effective regime for transnational production, investment and technology flow would constitute a major innovation deserving substantial intellectual and political inputs.

At the same time, stable flows of long-term capital must also be made available to countries for which the terms of commercial credit are inappropriate: the poorer and least developed, particularly in tropical Africa. Official development assistance is least likely to be encumbered with political conditions and tying provisions, and is most likely to be appropriately distributed as between countries, if it is provided through multilateral bodies like the IDA, the IFAD and the UNDP. More reliable or even automatic mechanisms for the provision of finance for such purposes are ultimately to be sought; and the full participation of all members of the international community in burden-sharing, on some ordered and progressive basis, is another obvious objective. In the meantime traditional "targets" need to be refined, monitored and systematically assessed on a regular basis in such a way as to sharpen their "teeth."

(f) An Improved Regime for Exchange Rates and Balance of Payments Adjustment

Perhaps the most discussed and most evident change in international financial affairs since Bretton Woods is that of the exchange rate regime. Overrigidity, failures to agree as to adjustment responsibilities, and periodic "crises" led to disenchantment with the Bretton Woods adjustment peg system during the 1960s and its eventual abandonment in the early 1970s. While more flexible exchange rates clearly have some major advantages over the previous peg system, they have brought unexpected problems along with them. It is also important to recognize that the majority of IMF members continue to peg their currencies, usually to the U.S. dollar but also to other major currencies and, increasingly, to the SDR or other currency baskets of their own choice.

Short-term volatility and prolonged periods of apparent misalignment of the major currencies have now brought disaffection with the new exchange rate regime. Volatility in short-term rates does not appear to have caused great problems for larger international business or larger countries, but it has undoubtedly caused increased costs for small firms, and problems of reserve and debt management for smaller developing countries. Despite repeated reminders from the IMF and other quarters of the problems created for smaller countries by key currency instability,

and the need for technical assistance to help them deal with them, many continue to experience serious difficulties.

Generally considered more serious, however, is the problem of medium-term misalignments of major currencies, in the sense that their values do not correspond to those appropriate for agreed current account objectives; in particular, real (inflation-adjusted) exchange rates have been sustained for long periods at levels which do not reflect countries' overall international competitiveness, with resulting harmful effects upon commercial policy and the pattern of investment decision-making. The problems of key currency exchange rates are ultimately attributable to the new facts of free international capital movement, vast agglomerations of capital available for short- and medium-term international deployment, and reduced intervention in foreign exchange markets on the part of monetary authorities. Some have attributed the problems to market uncertainties as to governmental monetary action, implying that monetary authorities should stay out of foreign exchange markets entirely; but this view, even in Washington, is losing credibility. Few would want to turn back the clock on international mobility of capital.

There are some signs of increased cooperation among the monetary authorities of the major currencies (the five in the SDR basket), and even of multilateral involvement, in the form of the IMF's Managing Director, in their deliberations. Exchange rate cooperation can only succeed as part of a wider package of cooperative arrangements in monetary, fiscal and commercial policies. Macroeconomic consultations among the major powers will probably, in any case, have to be regularized and systematized. Target zones for real effective exchange rates, and active IMF surveillance and advisory activity in exchange rate and related policies, could be important elements in an improved international monetary regime. While the need for "global" macroeconomic management is already evident, it is important that sight not be lost of the need for effective multilateral participation therein. The effects of the policies of the major powers upon the rest of the world are so great that the rest of the world must have some input into their discussion and formulation; this is necessary both for their probable efficiency and for their eventual legitimacy.

The IMF's Committee of Twenty in the early 1970s explicitly recognized the need for more symmetrical balance

of payments adjustment arrangements and even offered suggestions as to possible measures to employ against reluctant surplus countries. These constructive approaches have been allowed to fade into the background during the past decade. But the bitter disputes over IMF conditionality have underlined the need for a more appropriate balance of payments adjustment regime, and a more credible and effective IMF role in its support.

(g) Improved International Decision-making Mechanisms

At the time of Bretton Woods, there were only 40-odd participating countries (23 signed the original GATT), and the influence of the U.S. was clearly dominant. Today's world is considerably more complicated. The independence movements in the Third World brought much greater numbers of countries to international bargaining tables; and, in recent years, these countries' collective importance has risen to the point where their interests cannot safely be ignored in global deliberations. Among the major Western countries, the dominance of the U.S. has been reduced by the rapid growth of Western Europe and Japan; whereas in 1955 the U.S. accounted for an estimated 40 per cent of global output, by the 1980s its share had fallen to 22 per cent. Further complicating international economic arrangements have been the changing patterns of East-West relations; many centrally planned economies have been re-establishing economic ties with the West, and returning to the GATT and the IMF/World Bank in recent years. Universality of participation is an important objective of international economic arrangements, and efforts must be made to accommodate divergent policy practices within the operations of multilateral bodies originally created on the basis of liberal market assumptions.

Recent efforts at North-South dialogue have not been encouraging. Nor have East-West relations recently looked very promising. More encouraging has been the growing cooperation of the major Western powers in Economic Summits, and within the OECD and other bodies. But it would be a profound mistake to build purely upon these sources of strength, within the group of more like-minded Western powers, neglecting the rest. However difficult it may be, efforts must be made to build improved and universal multilateral institutions for the management of global economic affairs.

The agenda for international economic reform is long and complex. The international economic issues to be resolved are themselves interconnected, necessitating a holistic framework within which specific matters can be individually addressed. The formula of "global negotiations" has lost credibility on all sides, and is too associated with so-called "North-South" issues. But some form of universal and overarching discussion and policy-making process is what is now required. A carefully planned World Economic Conference -a "new Bretton Woods"- may afford the beacon now required to provide focus and a sense of overall direction. The planning process for such an event would undoubtedly be of greater ultimate significance, however, than any worldwide conference could now be. A process of discussion and negotiation of the many major international economic issues now before the world economy is what is required, whether or not a major world conference actually ever takes place. Such a process should generate changes in the practices of existing institutions, altering government policies, etc. as it goes. From the experience of such relative success stories as the Law of the Sea conference(s) and the IMF's Committee of Twenty in the early 1970s, and the relative disasters of successive UN conferences (including those of the UNCTAD), some lessons can be drawn. What is required for relative "success" is high-level political commitment; action orientation; careful and detailed technical preparation through working groups, etc. prior to large-scale "public" conferences; representative rather than universal organizational forms of discussion with suitable mechanisms for maintaining contact with those not directly involved. While at an appropriate point it might be sensible to conduct a major world conference, the details of timing, agenda, and *modus operandi* should themselves be among the matters for discussion and resolution within the proposed process. The "new Bretton Woods" should therefore be seen as the initiation of a negotiating process involving a reexamination of the global financial and trading machinery in the light of current and prospective needs, a process to be undertaken in the same spirit of optimism and creativity as characterized the preparations for the original Bretton Woods.

## 4. A ROLE FOR MIDDLE POWERS?

Middle powers and smaller countries have much to lose from instability and uncertainty in the world economy. Typically more vulnerable to international "shocks" than are the larger powers, they are also less capable of generating their own independent longer-term growth. Stated more positively, in an increasingly interdependent world, they are among those with the greatest relative opportunities from a smoothly-functioning system.

Middle powers and smaller countries also have much to gain from multilaterally agreed international economic arrangements based firmly upon known rules. In international affairs just as in local communities, disorder and breakdown in agreed behavioural norms leads to bullying and the rule of the most powerful. Rules, unless they are grossly unfair in the first place, are likely to protect the weak.

Blocs within the international system -whether based upon regional, functional or ideological considerations- may serve some useful purposes; as a basis for overall international economic arrangements, however, they are likely to land middle powers and smaller countries in the greater powers' spheres of influence. The overall individual interests of middle and smaller countries are almost certainly best preserved in multilateral arrangements in which their collective interests and strength have to be taken into account.

These countries are therefore more likely than larger powers consistently to favour multilateral approaches to conflict resolution and dispute settlement; openness and transparency in the conduct of international economic affairs; nondiscrimination as a fundamental principle of international economic relations; and risk avoidance in terms of global economic management. Their self-interest is more nearly coincident with the general interest than is that of the Great Powers upon which the key decisions continue primarily to depend. Illustrative of this *Realpolitik* is the fact that the most vigorous current exponent of "a new Bretton Woods" is the otherwise very conservative Prime Minister of New Zealand.

There is much to be said, in general, for developing consultations and cooperative economic and political arrangements that cut across traditional alliances and trading blocs. Apart from offsetting traditional biases in economic infrastructure, and in patterns of trading and financial links, they are also likely to reduce the risk of ossi-

fied habits of thought. Fresh new initiatives at the international level are as likely to emerge from increased contacts among "middle" members of different blocs, as to some degree they already have in the Commonwealth to which Canada, New Zealand, India and Nigeria all belong, as from Great Power deliberations.

In the present world circumstances, there may be particularly great opportunities realizable from a more conscious banding together of middle and smaller powers. The international economy is in a state of considerable disarray and even disrepair. I have argued that it urgently requires the initiation of a process of negotiation for reform. The current leadership in the Western world (notably in the U.S.) is unfortunately not apparently in the mood for such an initiative; if it were agreed, it is not entirely clear where the Reagan administration would want now to lead such a negotiation process. Recent and current U.S. positions on the replenishment of IDA, the appropriate size and character of World Bank and IMF activities, the Law of the Sea, the management of exchange rates, the consideration of international effects in the development of domestic macroeconomic policies, East-West trade, and a host of other areas are profoundly antithetical to the views of the majority of its own (increasingly distressed and embarrassed) allies. But the almost certainly temporary lapse of vision and leadership in the U.S. should not hold back the required process of change or inhibit the development of the negotiation process required for its achievement. It must begin, with or without the U.S.; and it must proceed constructively in one forum or another, with or without the U.S.

As the most "peripheral" of the membership of the Western Economic Summit, Canada may have a particular responsibility to "represent" the unrepresented there. As an important member of the G-77 and the initiator and host of the Cancun Summit, Mexico may have an equivalent role to play in the councils of the South. At all events, Canada and Mexico both have much individually to gain from encouraging the early initiation of a comprehensive review of the existing international economic machinery. Together with other middle powers in both North and South they might well now seek to push the world in the direction that the more powerful have not at present the wit or the vision to see it must go. How they and others might begin to do so, if there is agreement that they should, I shall leave for the colloquium to consider.

# CHANGING INTERNATIONAL ECONOMIC RELATIONS IN THE 80S

*Víctor L. Urquidi*

The paper that you have before you was written last March and many things have happened since then. I have used it because it tries to encompass my view of the international economic situation and its changes. We tend to put too much emphasis on the financial crisis and also on solutions to that crisis, laying aside, even forgetting, some of the deeper structural problems the world is concerned with.

At the recent World Economic Congress in Madrid organized by the International Economic Association, which was typically a "scientific" conference, with a great many issues being discussed relating to structural change, interdependence and development, the media focussed almost exclusively on the international recession, the likelihood of U.S. recovery and the financial problems of the Third World. No one seems very interested, from the point of view of public opinion, in the deeper questions of adjustment which both developed and developing countries have to cope with. Those topics were discussed at the Congress but they were not newsworthy items, for we also had some competition from the Korean plane incident and the Madrid Security Conference.

This morning, discussing the international political situation, much more importance seems to have been attached to economic factors than before in the management of the international political scene and in the general situation. How may we pinpoint those economic factors that are significant? One, certainly, is the degree of fluctuation of the

main economic elements: trade, prices, exchange rates, interest rates, and the vast increase and sudden curtailment in liquidity through the international banking system; secondly, the food crisis which attracted much attention in 1974, immediately after the first oil shock when the Soviet Union suddenly had to purchase very large amounts of grain.

Economic thinking, whether in the industrialized or the developing countries, was not attuned to dealing with such sharp, rapid fluctuations. Just think of the increase in the price of oil and of the fluctuations, just mentioned by Professor Helleiner, in the prices of many basic products. Look at what has happened to exchange rates in the last three years; when the U.S. went off the gold standard officially, in 1971, there was some control, but recently there has been no international regulation of exchange rates. The IMF has missed the boat. The sharp changes in real rates of interest which have affected the indebtedness of the developing countries very seriously, and the floating rates, were unthinkable a few years back.

If you add to all that a clearly "man-made deflation" in some leading industrial countries, certainly in the U.S. and followed closely by three or four European members of the OECD without thinking, perhaps, of the impact this would have on world trade and the situation of the developing countries, you have, in the combination of factors, an extremely dangerous situation resulting in very negative trends all around. Some of the manifestations are evident in the acute protectionism which is being practiced by all the leading industrial countries or in the non-opening up of promising markets like the Japanese. They are reflected also in the drying up of soft loans, concessional lending, the financial flows that Professor Helleiner was referring to, and in the loss of influence of the multilateral agencies. The IMF, the World Bank, and the regional banks have simply not been able to replenish their resources, and the SDRs have almost been forgotten and the field left open to the commercial banks.

These events have led to a general poisoning of the atmosphere for international economic cooperation. This has been discussed in many international reports, perhaps the most outstanding of which is the Brandt Commission study that took over two years to complete and has had some impact, at least on the press, etc., but very little on government policy. Last February came the second Brandt report, called the Brandt Memorandum, which updated the is-

sues and looked more closely at the impact of the recessionary policy followed by the industrial countries. But it fell completely flat. There is very little else, except for some reports by groups of economists in the U.S. and other places. A report was issued by the UN Development Planning Committee a few months ago. However no one seems to be paying much attention to all these reports. Even the summit meetings have not really produced anything in spite of the grand designs of some of their members.

The current international depression, which affects deeply the industrial structures, affects relative economic power in different parts of the world. Industries have been becoming obsolete in many industrial countries and great efforts are made to protect them rather than to restructure them, although I recently read of a major effort in the Federal Republic of Germany to put much public money into a restructuring of the steel industry, which is interesting coming from a country that keeps telling you that market mechanisms should do the job.

You have the impact of the microprocessing revolution applied principally at first in Japan and of robotization, on the EEC countries and on the U.S. Dislocations are caused by the sudden penchant for Japanese cars and for many products of efficient modern industry because the consumer seeks out the best and the cheapest in spite of protection.

In the developed countries rigidity is being created by the social security systems and, something which I do not underline enough in my paper but which came out in the discussions in Madrid, by the fact that real wages in European countries and in the U.S. have been increasing all along and have been acting as a disincentive to investment in the light of the anti-inflationary policies, the high real interest rates, etc.

Not everyone would agree with the emphasis I put on the arms race as a way of diverting resources away from some of these structural change issues and from the development problems of the world, and contributing to the very large budget deficits which in turn are partly related to the high interest rates prevailing especially in the U.S. and reflected in other countries.

In the developing countries I find a very different situation from the last depression, because of the appearance of the newly industrializing countries (NICs) which have followed mainly import substitution policies -for

example, in Latin America, Africa and some of the Asian countries- behind high tariffs and every type of non-tariff protection and inducements. A great many of these industries are simply noncompetitive internationally. They are not efficient. There are some exceptions: Korea, Taiwan, Singapore and a few others, which some economists like to point to as the proper way to industrialize, contrasting it much too sharply with the import substitution strategy. To develop export industries, first you have to substitute imports; it is part of the process. But those countries have been aggressive in their exports and have invaded, to some extent, some of the softer markets of the developed countries, thus leading to the accusation of creating unemployment. I have seen studies recently by an Australian economist reviewing the whole situation, saying that it is impossible to prove that any of the unemployment in certain areas and industries of the U.S. is due to imports from the developing countries. Unemployment is due to more general reasons of policy.

Among the changes in the developing countries is the rapid increase in population versus food supply. Also, the developing countries have a kind of time bomb on their hands, in the sense that the patterns of industrial development being followed are not labour-absorbing, but relatively labour-displacing. This can be slightly papered over as long as the countries are expanding very quickly, but when you reach situations like those of the last few years in which expansion is much slower, then the underemployment and employment problems loom more sharply.

I shall now refer to the energy problem which Professor Heilleiner also mentioned. Some countries have been lucky in being members of OPEC and participating in what were for them favourable aspects of the oil boom, with enlarged exchange availabilities to finance development and enhanced liquidity. When in 1978 we were discussing the impact on Mexico -it was only five years ago- one of our leading economists said: "The external financing contraint has disappeared, now we can do what we want." Very few people foresaw the dangers of trying to go too fast on the tails of the oil boom. At the same time, the non-oil exporting countries, taking Brazil as the prime example, have really had a very serious problem, which has been to absorb into their whole economic system the "real" cost of energy at the new international

prices. Countries with oil production have subsidized their oil supplies for local purposes: industrial development, transportation, consumer needs, etc., but Brazil and many others could not, and when a whole industrial system geared to cheap energy is forced almost overnight to operate with the "real" cost of energy, at several times what it was before, the real cost of investment rises for future development of energy sources themselves and for industrial development in general. It should not surprise anyone that the Brazilian economy and others like it have ground to a halt. Brazil for a while was able to make great headway on manufacturing exports under aggressive export policies, taking advantage of the growing markets in the developing countries but also through a system, which we now think very wise, but frowned upon a few years ago, of minidevaluations. Brazil controlled its currency depreciation in such a way that the rate of exchange was never an obstacle to export development. The countries that thought themselves very rich in oil like Mexico and Venezuela thought that the clever thing to do was to maintain their currency overvalued, which ended up making imports too cheap, foreign borrowing too cheap and deceptive, and exports of manufactured goods too difficult to carry out.

The energy problems are hitting Brazil in a very serious way. However, curiously enough, they affect the smaller countries less seriously because, although the oil bill of these countries is relatively large, they have less industry to cope with and their oil goes mostly into generating electricity for domestic consumption, etc.; they somehow can adjust to that.

In the face of the oil shocks, the developed countries had the technological ability to make adjustments and to move towards energy conservation in a large way. They also had the ability to develop alternatives to oil, whether coal or nuclear, as well as solar energy, although the latter is unlikely to be an important source for the next twenty years. In the developing countries hardly any of this is possible. The few energy development programmes that we know of (Argentina, Brazil, India, etc.) are very limited and have also slowed down or stopped. The alternatives to oil and gas are not very important except for the Brazilian experiment with biomass alcohol production, now running at a very high cost and much in doubt.

I shall leave out the discussion about socialist countries except to say that they are going through some

of the symptoms or characteristics of difficulties of adjustment of the developed and developing countries; because some of them are dependent on energy imports (in fact, all except for the Soviet Union) and on food imports.

I shall bypass the question because it is not very much to the point right now. I shall not tackle the question of what we can expect at this moment, given these basic structural problems, what we can expect of the economic recovery policies that are being attempted. We know that the U.S. economy is recovering but there are not many signs yet of a full recovery, such as an increase in investment, due to the uncertainty about interest rates. They are high in real terms, and might go up again. Some economists say that the recovery might be "aborted." There is a lot of caution in all the forecasts. I heard an optimistic view from a leading U.S. economist in Madrid, who said: "It is true that the interest rate is still high and that it is holding back investment, but the developing countries and others should not complain too much of the U.S. situation because the very expensive dollar is favourable to imports from other countries, from Western European countries, from developing countries. Therefore, the little bit of recovery that the U.S. economy is showing should have a tremendous impact on imports and therefore be beneficial, and this in turn will feed back into the U.S. economy." Some of us say: "Fine, but what happens when the U.S. cannot hold its balance of payments deficit to the gigantic dimensions that it is having now and will have to, somehow, let the dollar go again?" This may be combined with interest rate policy and the U.S. may cease to be an importer of capital as it is now.

In fact, what is happening today is that the whole world is financing the balance of payments deficit of the U.S. It cannot go on forever, but the Latin American countries no longer have any financial capability, but there are still countries, European and so on, that are doing it.

However, let us be wistfully optimistic and assume that there is a fair recovery of the U.S. economy and that this will begin to have an impact on the European economies; we know that the growth rates are below past rates of growth, we know that some European economies are still declining or are banking on 0.5%, 1% or 1.5% growth. They have beaten inflation but they have not yet managed to get their economies going again. What may be the impact of this recovery, say over the next two or three years, on the developing countries? My view is that we do not realize yet that it

is going to be very small indeed; there may be some firming up of commodity prices, some minerals perhaps, oil may not decline but it is not going to increase because there is a potential over-supply in all the oil producing countries. There might not be much improvement in trade in manufactures because of the excessive protectionism which is a local political issue in every country and is going to be looked at by governments with a view to elections, so that there is not going to be a real opening up of protectionism. The GATT is being violated day after day by all the countries including the highly industrialized developed countries. The GATT holds no hope, at present, as a mechanism for reducing protectionism. The expectation of high officials in the IMF is that the GATT may serve at best to prevent protectionism from getting worse.

Meanwhile the financial flow has been cut down. I did not know the figures mentioned by Professor Helleiner on the decline in private investment, but we do know what happened from mid-1982 onwards in the matter of new borrowing or net lending to the developing countries: it stopped and it caused the liquidity crisis. I am not saying that it is a purely external cause, since there were plenty of internal factors to explain this crisis, but you cannot put countries up against the wall and say: "now you go bankrupt." So all these mechanisms have come into play, very improvised, led largely, originally, by Poland but certainly by Mexico in the August 1982 crisis: to reschedule and refinance is a very difficult job in the kind of panic situation that was created. One must recognize that the U.S. government and the IMF acted very positively and pressed the commercial banking system to get busy, and got the Bank for International Settlements to open up some kind of bridge for the short-term liquidity problem, and make possible a recuperation of financial flows at a later stage. The BIS has now withdrawn from that, so the whole question is left to governments to negotiate with the private banks in different parts of the world, with support from the IMF -insofar as governments are willing to follow the agreements with the IMF (and we know that some have not yet been properly reached as in the case of Brazil and Venezuela).

Broadly speaking, there is a drying up of financial flows even from the commercial banks, if somehow the countries could afford them. There are cases like the situation in Brazil where the whole of Brazil's exports have to be devoted either to paying interest (service on loans) or imports. They are therefore in a terrible dilemma: they

cannot have both so they have to negotiate, postpone and organize recyclings of their debts.

International cooperation has declined and there is a tense political situation, a sort of a new Cold War, and threats and dangers all around. In addition to all this, we have the attitude of the Southern countries of looking to the North and also expecting the U.S. somehow to solve the world's problems. Even if the U.S. knew how to do it, by looking at some of the figures you can see that it is a bit out of place. In a copy of The Economist I have at hand there is a table showing the declining proportion of world GNP represented by the U.S. It shows also that almost every important country has had its GNP rise from 1960 to 1981 at a much higher pace than that of the U.S. Japan's GNP, for example, has risen from about 9 to 40% of the U.S. GNP in 21 years. Mexico appears here as rising from about 3 to 8% of the U.S. GNP, and the only countries whose GNPs have declined in relation to the U.S. are Belgium, Turkey and India (to a small extent). All the others are going up: Canada's has gone up from 8% to about 10% of U.S. GNP.

If that is the case, and the other countries do not recover or go along with the U.S. recovery, what are we to expect in the South? The first great depression in this century, looking back on it, had, on Latin America, a very clear impact: it brought about industrialization. When you do not have foreign exchange, when you do not have access to finance, when prices have declined for your basic exports, when you cannot afford to import anything, when you continue to have depreciations, you stimulate industry. It may occur spontaneously as happened in Brazil in the 1930s, or it may occur positively because of government policies. This is how import substitution policies developed in the 1950s in Latin America, as a means of saving foreign exchange, as a means of providing internally the products that could no longer be imported. We need not go into the whole history of import substitution, but this was partly the result of the depression; in other words, the foreign exchange constraints led to "deliberate industrialization," a phrase coined by a U.S. economist in the 1940s. Then, of course, nobody foresaw the complications, the high costs of this kind of industrialization, although it was foreseen that it would be a means of employing the population that was gradually being displaced from the primary to the rural areas and from the cities into secondary

and tertiary activities.

At this moment, in Latin America, with the financial crisis, with over-expansion in certain countries like Mexico and Venezuela, and Brazil up to a point (Brazil is a special problem because of its oil imports), with the self-inflicted disasters of Chile and Argentina through monetary policies and the opening up of the market -an idea that came from a "Friedmanite" group of economists, with all that and the stagnation of the Latin American economies, what can we expect next? The stagnation is given in these figures from a recent Inter-American Bank report: In 1982 Colombia's GNP increased by 1.4% (achieved perhaps through certain illegal products); Ecuador's by 2%; Panama's by 1.2%; Paraguay's by 1.6% (after they had had very high growth with hydroelectric developments); Peru's by 0.7%; Dominican Republic's by 1.5%; Venezuela's by 0.6%; Trinidad's by 2.5%. Actual decreases in GNP occurred in a number of countries, as follows: Chile, 15%; Bolivia, 9%; Uruguay, 8%; Costa Rica, 6%; El Salvador, 5%; Argentina, 6%; Brazil, 0 (approximately); Guatemala, 3.5%; Honduras, 1.2%; Mexico, 0.5% (officially); Nicaragua, 1.4%.

In many of these countries declines had already happened in previous years. Argentina and some of the Central American countries, Venezuela and Peru, have been stagnating for two to three years. Mexico's GNP growth fell from an 8% average up to 1981 to a minus 0.5 in 1982 and is due for a minus 5% further decline this year.

There is a deep crisis in production. It is not just the financial problems. Countries are not able to make their industry function. There are no export markets of importance to offset the inflationary impact of the crisis. They will have to devalue in some way or another and attention is wholly focused on the recycling of external debt, on the rescheduling, on what may be expected next week from the IMF-Bank meeting, from an increase in the IMF resources or from some future action of the World Bank.

Very few people are thinking of what should happen next. If one may be optimistic in the sense that some rescheduling may continue, that Brazil finally gets over the hump, that Venezuela settles its problems, that Mexico, whose case is quite good on the external side, continues improving its external liquidity, and so on, if all this happens, what will be the next step? First of all, how do we reduce the very highly inflationary rates? Even

IMF and World Bank people are very skeptical that you can get below 40% inflation after these long periods of dislocation and high inflation.

Secondly, what do we do about our future net financing needs? If a country is to develop and, as in the case of the Latin American countries, very limited sources of domestic savings are available, and inflation tends to destroy them anyhow, there is a need to achieve the growth, for some net financial flows from abroad. In other words, since there will be balance of payments deficits on current account, how will they be financed? What is the world financial system going to do to face those needs? For if we do not, then we shall also slow down for that reason; we have no financing for big projects, nor for other developments. The World Bank will probably continue to operate. I do not know whether in real terms its operations are increasing and how it can deal with smaller countries in these circumstances. But how do you set in motion your economy again towards reasonable medium-term objectives? How long does it take to readjust and to start again? Do you just resume the old growth patterns which may lead you into another cycle of external indebtedness and crisis, or do you change? How? No one knows; everyone can be critical again and say that we have followed the wrong development paths; a very expensive and inefficient industrialization; we have developed industries that only produce goods for the upper layers of society; we are stimulated by advertising on television; and we all have these beautiful shopping centres, and so on. But what alternative do you offer? How do you do it? How do you change what some economists in ECLA (CEPAL) call "the style of development"? No one has an answer. Nevertheless, population is growing, there are some added costs in development deriving from environmental problems and there is also the question of military expenditure and arms imports in Latin America.

How should resources be allocated? How can governments plan for a resumption of a reasonable increase in standards of living? I summarize this not with answers, but by saying that the answers are not going to come from the North. We must look inwards and we have to learn some of the rhetoric of the last few years and try to apply it: self-reliance. We must deal with our own problems, look inwardly and cooperate among ourselves in the South, not in the board schemes of integration and common markets which were talked about and which, even in Latin America, have come to practically a stop, a failure, but in much more selective

terms, according to practical advantage -taking of what many countries have to offer in technology, finance, industrial experience, opening up of certain markets, etc. There are no mechanisms yet for this, there is no "UNCTAD of the South." There has been talk of a Secretariat for South-South cooperation, but it seems to me a bit too ambitious. Most countries in Latin America not only do not cooperate among themselves anymore, but they look to the North all the time. They do not look across the Atlantic or the Pacific to the possibilities with Asian countries or perhaps with one or two African countries.

I feel that this is the only way out in the medium and long-term and I link it to an idea that came to my mind recently much more clearly: it is that this second Great Depression of the century should have the same strong impact on industrialization that the first one had, but with the hope that we can industrialize more rationally, not through indiscriminate import substitution but through better programming and planning, through more cooperation among ourselves, through a much more rational attitude to the incorporation of technology. You just do not open the markets and say to the multinationals: "Come over and produce all these refrigerators, fancy cars and cosmetics, etc., because you have technology that sooner or later we are going to need." We must develop our technological policies and be more selective and discriminate in what we are going to pay and what we should develop ourselves. We must learn to master the applications of science to our needs, not to the needs of the developed countries' markets or to the weapons production systems of the developing countries. A high percentage of all R and D in the industrial countries is for military purposes, so that the scientists, institutes and all kinds of resources are attuned to output that has no cost-efficiency yardstick; it is justified in terms of security but not in terms of world needs and much less the needs of the developing countries.

My conclusion is perhaps a little pessimistic in the sense that, first, I do not think that the recovery is going to be significant enough even to solve the developed countries' problems because their problems of structural adjustment are very hard to solve under very low rates of growth. Secondly, it is not going to have much impact on the developing countries and we, because of the financial crisis, are completely obsessed with this problem, as is everyone else. We are not paying enough attention to the next stage, the deep problems that will keep coming up to

the surface. Development and welfare issues are permanent in our countries and we are not doing enough about South-South cooperation.

That is how I see this picture of the 1980s and since the 1980s are almost half way through we should start thinking of the first few years of the 1990s, and then approach the fateful year 2000 which is used as the target for all projections (except in Africa where they have projected to the year 2008 because they did a 25 year projection in 1983).

One must not be unduly pessimistic but it would be quite foolish to think that the U.S. recovery, plus French, Canadian, German or whatever recoveries are suddenly going to put us back on the tracks where we were before. We must not even try to be on the same tracks anymore.

# THE CURRENT INTERNATIONAL DEPRESSION AND THE DEVOLOPING COUNTRIES

*Víctor L. Urquidi*

1. The current worldwide depression, serious as it is, has its own characteristics and can be distinguished from the depression of the 1930s in many respects. It also has different consequences for the developing countries and for the world as a whole. Its impact on the developing countries needs to be studied carefully, as well as whatever positive effects may come from the probable recovery of the U.S. economy, and, following upon it, from that of other OECD economies, mainly Japan, Germany, France and others. In this analysis, the basic problems of the developing countries should not be overlooked.

2. The main differences between the current recession/depression and that of the 1930s can be placed in five categories of problems:

(a) The Western industrialized countries are in the midst of serious structural problems which are related to differential technical change, that is, change between branches of industry, within branches of industry and even between countries (for instance, the United States and Japan, Western Europe and the rest). Certain industries are becoming obsolete in some countries, such as the steel industry in the United States and parts of Europe. The impact of Japan's applications of microprocessing and robotization on the United States and certain

European countries, as well as the quality of Japanese automobiles, are two important factors. In addition, the generalization of social welfare programmes and their effect on real income and especially on wage income has influenced the public sector impact on GNP due to the increasing proportion of expenditure that has to be devoted to all aspects of social welfare including, of course, unemployment insurance in its various forms, medical care, etc.

On the other hand, the developed countries are for the most part in the midst of an arms race which has serious consequences on their budgets and, therefore, on budget deficits. It is also an arms race of a highly technical kind which does not necessarily mean enlargement of armed forces and of standard equipment but rather a shift towards more sophisticated equipment, missiles and nuclear warheads, or other kinds of missiles, expensive aircraft and tanks.

All these issues can perhaps be grouped within the term "structural problems."

(b) The developing countries, which in turn should be classified according to their degree of development and the nature of their own structural change, are in a different situation than in the 1930s. There is a strong differentiation within developing countries as a group. The newly industrialized countries (NICs) cannot be compared with those which are still predominantly agricultural and, from the point of view of development, fairly primitive, such as certain parts of Africa and Asia. Some NICs face particular problems deriving from their form of industrialization: import-substitution policies have turned out to be a high cost process -justified not only for economic but for other reasons- behind high tariffs and other methods of protection. A vast amount of this new industry is not competitive internationally; it has, however, increased employment.

Most developing countries in the last 40 to 50 years have experienced very rapid population growth - their ratio of birth rate to death rate has been higher than that of most other countries at any time in history.

This has been due mainly to the decline in mortality, while fertility has remained fairly stable or has even increased in many cases. There are signs in the last ten years of declines in fertility in some developing countries; among them, a few countries in Latin Amer-

ica and Asia. The case of China is a special one, but also has shown a decline in population growth. In any event, the unprecedented increase in population and its particular nature, that is, high birth rates with declining death rates, has meant a very rapid rate of expansion in the younger age groups and in the population of working age, and consequently in the labour force. In some cases, the latter has grown even more rapidly because of the increased participation of women in paid work, due to many social and cultural factors.

Rapid population growth not only means that the efforts to increase employment have had to be more intense, but also that only in very few cases has employment developed and proceeded at a pace and in a manner that would substantially reduce the pre-existing underemployment. Industrialization has certainly increased employment and changed its nature and structure, but has been based mainly on labour-saving technology - a less than socially optimum form of employment. There is thus a serious problem of negative interaction between rapid population growth and modern industrialization. Few developing countries can be said to have chosen a path -perhaps China is the exception- which includes a form of industrialization and development of other activities that would absorb the rapidly rising labour force in sufficient measure.

It should be noted that the developed countries have reached a stage of very low or even negative population growth, to the extent that problems in industry and in wage patterns have led to importing from the developing countries, either temporarily or gradually, on a permanent basis, part of their labour force. This has happened in Europe as well as in the United States. Among certain developing countries also, including the Middle Eastern oil producers, there has been much differential migration flowing into segmented labour markets.

The world's population structure is changing. A much higher percentage of population is in the developing countries and most of the future population increase will take place in these countries also.

Another aspect of change in the developing countries is the persistence of the lag in rural development. With few exceptions, developing countries have become net importers of food although, at the same time, they

have available resources and, theoretically, in many cases would be able to be fairly self-sufficient. The causes of shortcomings in agricultural output and rural development are many, some of them institutional and cultural as well as social, and some resulting from patterns in relative prices. There is no question, however, that in many cases population growth itself and the change in the industrial and urban structure of the countries have led to changes in the structure of food consumption. Such changes have not been adequately met by the supply factors in the rural areas.

A further emerging structural change which has been accentuated in the last ten years is the energy dependency of a large number of developing countries. Their industrialization has mostly been carried out on the basis of cheap energy, either locally developed or imported, and technological patterns have been established whereby energy substitution, now that energy has become more expensive internationally, cannot easily take place. By and large, in the developing countries there is no important technological alternative to energy dependency. Although dependency is also a characteristic of a number of highly industrialized countries, many of them, given their technological capacity, have been able to conserve energy per unit of industrial output or in the consumer branch of their economies. They also have been able to develop alternatives, for example, to move from oil to gas and coal, or from hydrocarbons to other sources, notably nuclear energy and, though still in very small percentages, other nonconventional forms. There is thus worldwide a change in the structure of energy supply and consumption, with the latter growing much more quickly in the developing countries. This has affected all aspects of international economic relations, investment structures, technology needs and even economic policies and political relations.

The developing countries are also much more financially dependent than they were in the 1930s. Some have experienced improved terms of trade or have developed additional sources of foreign exchange through exports of manufactures. A number have benefited considerably and speedily from such new opportunities. However, due to various circumstances, particularly those related to the oil boom in the Middle East and the creation of vast amounts of petrodollars, many developing countries have also had access to foreign borrowing that went beyond

the availabilities of the multilateral and regional financial organizations: that is, they have had access to the commercial banking system through the recycling of petrodollars and other instruments of liquidity created in Europe and the United States over the last five to ten years. The rates of increase of borrowing by the developing world have been such as to have raised their external debt to some $600 billion dollars, much of it concentrated in a few NICs under short-term patterns with high interest. Because of short-term rigidity of debt service payments (including interest), balance of payments positions have become particularly vulnerable to recent fluctuations in prices of basic export products and to protectionist policies followed by developed countries affecting imports of manufactures from the less developed countries. General economic fluctuations such as the current recession have had an accentuated impact on the Third World. During the 1930s there had been financial dependency and most developing countries were in actual default, but it does not seem that such dependency, simply to keep their economies running, was as great as it appears today.

The above are not all negative factors in the situation -some are indeed positive- but in times of recession the essential rigidities and the negative factors stand out more, and solutions to them may become more difficult.

(c) The socialist countries -centrally planned economies- particularly those of Eastern Europe, have shared many of the problems of both the developed Western countries and the developing countries. They have found themselves holding on to obsolete industries, they have got into an important arms race, they have not been able in all cases to keep abreast of technological innovation and, with the exception of the Soviet Union, they are energy-dependent- and almost all have become financially dependent as well, subtly intertwined with the rest of the world economy, especially with the OECD countries. Some have, in addition, despite low population growth, failed in their agricultural policies and have become net importers of food. Social welfare, of course, is an obligatory policy in the socialist countries, but the quality and levels of the social welfare programmes are not always very high. In general, consumption has been sacrificed to investment and to military expenditure.

There have been improvements but it can only exceptionally be said that current consumption in the socialist countries corresponds to their technological possibilities and to the aspirations of their peoples.

(d) A feature of the current world depression is that inflation is present in all three groups of countries. In the industrially-advanced countries it has been reduced at the cost of intolerable unemployment and of a virtual halt to new investment in industry in general and in some cases in agriculture also. In some Western European countries inflation is still fairly high. Short-term policy has turned very violently towards the control of such inflation by monetary means and this, in turn, has made it more difficult to carry out some of the necessary structural changes.

In the developing countries the rates of inflation, especially in Latin America, have been very high and in some areas have increased. One or two countries have learned to "live with inflation." There have been successive balance of payments crises, devaluations, resurgences of inflation, and new devaluations, sometimes followed by slowdowns or stagnation in the economy without much reduction in the rate of inflation. Structural factors partly explain this situation, as also, for some countries, the change in relative international prices, especially the negative effect of the increase in oil prices in the last ten years. In others, particularly in the oil-exporting countries (for instance, Mexico and Nigeria) the export of oil itself in such large quantities and at rising prices has been a factor in inflation through its impact on domestic demand, both investment and consumption. This is particularly true in those countries that have been unable to close the domestic savings gap through adequate fiscal and financial policies.

In the centrally planned economies, it can also be said that inflation has appeared, although it is largely hidden by the system of price control and nonmarket distribution of commodities both for production and for direct consumption. The results of pressure on the system and imbalances have frequently been reflected in shortages which are equivalent to inflation; in many cases they have had to be adjusted by actual price increases.

(e) Not only has the current recession/depression been partly induced by the efforts to control inflation through drastic monetary policies without any change in the pat-

terms of expenditure on arms and with the rigidity of social welfare expenditures, but there has also been a slowdown in the growth of productivity in the industrially-advanced countries and in the centrally-planned economies of Eastern Europe. In the Western market economies, in addition, there has been a steady increase in real wages and, in some cases, a decline in the work-week. This unusually unfavourable combination of trends also distinguishes the present depression from that of the 1930s and makes it more difficult for the world as a whole to pull out of this situation.

By and large, there has been an important change in the flows of trade. In the 1930s the industrial countries imported, essentially, raw materials and certain food items and exported manufactured consumer goods, intermediate products and certain capital goods to the developing countries. Among themselves they traded in food and minerals, as well as in energy products and also in a number of industrial commodities. The 1930s was an era of very high protection - tariff and nontariff, including the introduction of import quotas and controls. It was also an era of currency instability and restrictions on trade resulting from short-term policies or from the attempts to operate on the gold exchange standard at overvalued currency rates. In the midst of the large depression of today, the proportion of world trade between the industrially-developed countries and between Eastern and Western countries is considerable in almost every conceivable kind of manufacture and services. At the same time, the developing countries have become exporters of manufactures, not only simple consumer goods but also certain kinds of intermediate products and capital goods. This trade has been directed mostly to the industrially-advanced countries, but also occurs within the Third World. There are signs, furthermore, of certain NICs exporting manufactures to the centrally-planned economies.

To these changes must be added the new patterns of trade in energy products, mainly oil, with a higher proportion of the total value of world trade being carried out by the oil-exporting countries.

Such variations in the patterns of trade have given rise to a new power situation; that is, a new structure of economic power of which the technology-based trade of highly developed industrial countries is one notable ex-

ample. The energy-based (especially oil and gas) trade of the Middle Eastern countries and a few non-OPEC oil exporters is also equally outstanding.

This is quite a different situation from that prevailing in the 1930s, when the developing countries at large were in an extremely weak position, with easily declining terms of trade and with little capacity to offset such declines in trade in primary products by increased exports of manufactures or of any scarce commodity. Today, even technology and services are traded by some of the developing countries.

The trade policies to which all countries are resorting are, as in the 1930s, again becoming defensive and protectionist. The developing countries have a long history of protection for the purposes of import-substitution or balance of payments control. Such protection is not likely to be reduced. The industrially-developed countries which for a while, at least in the 1950s and 1960s, followed a fairly open policy of admitting imports into their rapidly expanding markets, are now resorting to protectionist policies not only among themselves but against the NICs and other developing countries, although some exceptions exist, as shown by the Unilateral Preference System and the EEC special advantages for least developed countries. Some of these schemes are now in abeyance or are breaking down.

The internal financial condition of the industrially-advanced countries has deteriorated at the same time as has the international financial situation. That is, the difficulty in assuring recovery of loans and, particularly, the payment of interest is not only a problem which exists between the OECD countries and the rest of the world (that is, socialist and developing countries), but is also a domestic problem within each developed country at a time of deep recession, with high real rates of interest and very little new investment. There has been, of course, a broad change in the international structure of financial supply, because of the rather limited ability of the multilateral organizations to absorb or capture the oil-dollars and the Euro-dollars created after 1971. Thus, the proportion of long-term low-interest loans and of softer international flows of funds for the developing countries has fallen in relation to the total flow of funds. Aid programs also have declined as a percentage of the GNP of the industrially-advanced coun-

tries as a whole, although one or two countries have been able to maintain their targets under the UN Development Decades.

3. Now, what is the nature of the present recovery? It is important to look into it and to compare it with the type of recovery that occurred in some of the deeper cyclical fluctuations of the past, particularly in the 1930s depression. The present recovery in the United States, insofar as most of the indicators seem to show, is a very uncertain, even fragile recovery because, as some U.S. economists have argued, the United States is no longer an economy that can operate in isolation from other important economies, particularly those of Western Europe and Japan. In some cases it is even alleged that the prosperity of the developing countries would be a significant factor in a steady U.S. recovery. The essential differences in this recovery seem to be, first, that it is not very steep; second, that it is occurring with high real rates of interest in spite of the recent decline in nominal interest rates; third, that it is exposed to vast uncontrolled capital movements and currency fluctuations; and fourth, that it comes about in the midst of structural problems quite different from those of the 1930s. Most analysts of the present situation and its prospects seem to agree that all this amounts to a prospect of slow economic growth in the OECD countries; that is, on the order of 2-3% per annum as compared with the 4-5% of the 1950s and 1960s.

4. The next question is: How will such a slow and uncertain recovery and, in general, slow growth, affect the developing countries? Assuming that there is an immediate favourable repercussion through the firming-up of prices of certain basic products in world markets and through a slight opening for exports of manufactures from LDCs, particularly the NICs, in the markets of the developed countries, it must be admitted that the developing countries are not by those means alone going to be able to solve some of the basic problems mentioned above. These problems require much more attention to structure, and insofar as they can be solved with the help of international finance, would seem to require long-term low-interest loans rather than the short to medium-term financing, at high market rates, that the international banking system has been supplying in the past few years. To this should be added the intense foreign exchange liquidi-

ty problems that some developing countries have been going through lately, that have led to re-scheduling agreements of some significance. In a few cases there has been technical default on the external debt insofar as interest payments have not been met or have been postponed. If the effects of recovery are not likely to be very important in terms of prices, of trade in manufactures from developing countries, and of softer forms of finance, then one must ask: What are likely to be the options for the developing countries?

5. One of the probable scenarios is that the industrially-advanced countries, because of the problems they face, are likely to remain inward-looking and to regard with a certain amount of distrust any attempts to accommodate the situation of the developing countries. They have enough problems of their own and among themselves that determine restrictive policies, particularly in trade and finance, so that they are less bound to pay the sort of attention to the developing world that the report and the newly published Brandt memorandum have been recommending.

6. If this is to be the situation, coupled with the slow growth of the developed countries, what would be the scenario for the developing countries? Here it must be recalled, as earlier, that there are different categories of developing countries, that some will be able to cope much better than others with the present and immediate prospects, and that some will be able to carry out their next stage of development under better conditions than others. The next result of the limitations of international exchange will be, of course, the necessity to formulate and develop a more rational and conscious series of policies to promote self-reliance in the developing countries, at least for the next few years. It is hardly conceivable that even the strongest developing countries are going to open up their markets or maintain them open to imports from the developed countries and to continue to resort to onerous short-term loans. They will have to adopt permanent stringent control of imports, with the consequent import substitution policies, together with more aggressive export policies; they must also try to achieve some form of relative price stability for export products and to penetrate the markets of the developed countries with their manufactures. In spite of the apparent success of the export-led development of some countries in the Far East over

the last 15 years, this may not be as easy in the future. The position of each particular NIC vis-à-vis the others will be much more competitive than in the past.

7. Increased self-reliance in the leading LDCs is likely to be accompanied by increased efforts at South-South cooperation, on which much has been said in the past few years but little has actually been carried out. Such cooperation can take place in complementary trade arrangements, in preferential trade associations, and in common markets (although the experience so far of all these arrangements has not been very successful), as well as in investment, financial flows, and technology. There are many examples of multilateral regional banks, as well as of special funds set up by the oil countries. There are many instances also of interchange of technical services and of the results of R&D. Nevertheless, the extent of South-South cooperation has been rather limited and is not widespread among the developing countries. Certainly the potential for it has not been adequately studied and translated into the special arrangements needed. Developing countries still tend to look to the North for the solutions to their problems through trade, investment, finance or technology. In sum, there will be a need to obtain further advantages in South to North relations, but simultaneously to develop real possibilities of South-South cooperation. (It may be assumed that East-South economic cooperation may not be significant in the short and medium-term outlook, except on a very selective basis).

8. Because of rapid population growth in the developing countries, still at about 2 percent per annum -and despite the recent decline in the rates in some areas- the prospect of large per capita increases in GNP does not seem very great over the next ten years or so. A few developing countries might find themselves with foreign exchange surpluses. A few will be more successful than others at substituting imports or at adopting technology useful not only for the domestic market but for exporting to world markets. Others may persist in trying to follow alternative paths of development, that is, low capital-intensive industries instead of high-technology, energy and capital-intensive industries. A few may also work out their agricultural problems, particularly for the production of food. Others may carry out successful trade policies. But there seems to be an overall limitation in the possibilities open to

LDCs, because most of them will have to incorporate the high cost of energy in a realistic price system. There are also new, added costs of development, such as those imposed by environmental pollution and resource degradation, and by overly rapid urbanization.

9. Many developing countries are also moving towards social welfare systems similar to those of the highly industrialized countries, with the need to establish, additionally, expanded coverage in their free health and education services. All this in the face of rather weak fiscal and tax systems. Some developing countries are beginning to devote an inordinately higher proportion of their GNP and of their budget to military expenditures, often on matériel which becomes obsolete in a short time and has to be replaced by even more expensive imported equipment. This is a clear diversion of resources in a nonproductive fashion which does not even have, in most cases, spin-offs to the civilian sector of the economy which could derive from local R&D.

10. To conclude this brief survey, it should be emphasized that mere recovery of the economies of the industrially-advanced countries -which is bound to be inward-looking- is not likely to bring much relief or benefit to the developing world, and that slow prospective growth of the OECD countries will probably require that the developing countries reassess their immediate and medium-term prospects and carry out a much clearer and intense effort of self-reliance, individually and collectively. This, of course, would be all to the good.

## DISCUSSION 9/26/83 SECOND SESSION

Chairman: Prof. Rafael Segovia (El Colegio de México)
Section 2: "Changing International Economic Relations in the 80s"
Two papers were presented: the first by Prof. Gerald Helleiner from the University of Toronto and the second by Prof. Víctor L. Urquidi from El Colegio de México.

Before Prof. Helleiner presented his paper he commented the following:

The topic assigned to me was an assessment of the changing international economic relations in the 1980s, and one could proceed with the discussion of these issues in two quite different ways: one would be to consider the pressing, really urgent issues before the international community; consider the short-run needs of a global economy which is going through the most difficult period in 50 years; conduct a discussion of what is required to reduce the prospect of an aborted global recovery in circumstances where there is some evidence of a final turnaround in scattered areas still, geographically. It shows no sign of affecting unemployment, even in the industrialized countries, for some time. It shows up primarily because of continuing high real interest rates; it shows every sign of petering out without a significant investment boom in the North such as would be necessary to sustain the recovery and bring us on to something like the same growth path that we enjoyed in the first 25 years or so after the Second World War.

That is not the path that my paper has taken, although

we might well spend some time considering these issues if only because of the real chaos before the international trading and financial community, as represented this week in Washington, by the apparent inability of the member states of the UN to agree to retain even the minimum level of strength and the credibility of the central pillars of the international economy of the multilateral kind. The route I have taken has been the alternative route, which is to stand back a little from the immediate problems.

Lic. Carlos Bazdrech
(Mexican Ministry of Finance):

I found Mr. Helleiner's paper very useful and interesting as he proposes an agenda to discuss most of the points on the international economic scene.

I want to comment on the seven issues that he posed to us and then I shall make some general comments. I agree totally with the general position that we as a country, as part of an international community, have to be more aware of the growing economic interdependence we sometimes think we are enjoying and sometimes suffer from which is, almost certainly, a fact that we cannot avoid any more. As to the line of solution that is proposed in the paper, to have more bodies, to have a very high-level UN Economic Security Council and to perhaps have all the bodies discuss and analyze this interdependence, I agree.

I am also in agreement with the fact that the IMF Interim Committee should meet more frequently, but we have to realize that the problem is a political one. If we take a better look at what has happened in the discussions of the bodies that we now have, we can see very clearly that there have been a lot of proposals to avoid the crisis that we are now in but still no action has been taken when the crisis has already exploded. All the people who are in contact with these meetings, with this environment, say that what is lacking is political will to support the work of the bodies that do exist and set to work on some of the proposals made by these international bodies. I would like to see an explanation, from a historical point of view, of why this political will to

develop the international community and international force to achieve a positive result of economic interdependence has now disappeared? Why do we now find that the U.S. is not willing to go ahead with many of the positive initiatives which we have seen in all the international bodies? Most of the other countries follow the U.S.'s lead.

With regard to increasing trade, I believe that really we cannot have a worse world. From the institutional point of view it is difficult to think of a worse situation. Everybody knows that we are in a liquidity crisis, everybody was predicting some years ago that this crisis was to come. Many people pointed to Mexico's, Brazil's and lots of other countries' problems and to the situation that is present today: we are fighting a crisis in one country, then the next country, then the next, etc. Even with all these predictions, with all this awareness of the international financial community, nothing has really been done and nothing is being done now; the only solution, proposed by Mr. Helleiner, is to increase the IMF liquidity, but the problem is that not even the Reagan administration can get this money.

It is obvious that an increase in the IMF liquidity, with all this conditionality, will not solve the problems of how to distribute the new liquidity between rich and poor countries, nor of how to distribute it on time nor how to convert the new liquidity into long-term loans, but it should be useful to provide relief and start the flows of capital again. It is clear that the increase of the IMF liquidity without solving all these problems is not going to offer more than temporary relief. Unfortunately the international community is not even prepared to do this, it cannot organize itself to get this temporary relief from the real international institution, the IMF. Everybody there is very happy because they think that they have solved the Mexican crisis and now they believe they can cope with the Brazilian one. The IMF officials there usually complain that the U.S. Treasury cannot give enough time to this problem. We know that the problem is going to explode on a country basis from now onwards, in which time something new can happen.

As to the importance of having oil price stability, I agree, but the problem is how to convert the price stability which we have now into something that can be

worked out in the long run because it is not clear that we are working towards long-term stability in the price of oil. We may be facing a more permanent oil glut, and oil prices could drop very quickly two or three years from now. This scenario is possible, but if it is avoided it will be because there is not as much oil as everybody says they are finding.

As to the trade régime I agree that the idea should be not to look for more protectionism, although Mr. Urquidi has very clearly said that we, the Latin Americans, are going to look for a more inward-oriented strategy. We should look for a more liberal international economy, but this is not the only solution. It is very difficult to pose only the non-protectionism issue, there are many others. For example, if we are really going to develop international trade on a non-protectionist basis, needed by the developed countries and the leaders of the underdeveloped or the developing countries, we need to have more real non-protection on the side of the developed countries. For example, we need assured access to the markets; the general preference system of the U.S. economy is quite a sophisticated mechanism maintaining the threat of raising tariffs whenever you really make a dent on the U.S. domestic market. The UNCTAD issue of non-reciprocity, on some of the tariffs' actions, on some of the lowering of the tariffs, cannot be avoided. It is true that we are looking for more free trade for everybody, but it is also true that poor countries cannot support the competition that can come from everywhere; we therefore need, to a certain extent, a non-reciprocity idea. The point is that we cannot just try to live in the world on a quo pro quo and quid pro quo basis because it is true that the poor countries are poor. Poverty does not only mean low consumption, but also low ability to compete and to maintain the speed of development and of the growth of exports.

I have recently heard from very many quarters the idea that the net capital flow from the rich to the poor countries is going to be true private foreign investment, in other words, that is going to be the channel for net capital in-flow to the poor countries. Usually with this idea comes the recommendation that we should open our arms to foreign investment, we should forget all these restrictions and all this lack of willingness to see the excellent benefits of foreign investment. This

goes back approximately 25 years to the time when foreign investment was analyzed as only a transfer of capital from one country which had too much capital to another which had less capital in the international economics theory. The problem is that throughout these 25 years we have learnt a lot about foreign investment and we know that with this investment come benefits and cost. Therefore, if we are going to do something so as to be able to have more foreign investment, the action has to come from everybody, the poor and rich countries. Mr. Helleiner would agree with this and I am urging him to correct this fact in his paper, because it is strange that we are still hearing these old slogans when we do not require them.

My next comment is on the idea of having better arrangements for the foreign exchange rates system. Nobody can say that the world has achieved anything but the question is how to solve the problems and to find out where they are. Here, the situation is the evidence that the problem lies in the nations which really have the power in the international community. The relationship between the exchange rate of one country and another, and the possibility of undervaluation or overvaluation of key currencies depend on the national policies which the countries in control of these key currencies follow. To solve this situation one would have to go to an international authority for advice; the advice has not been lacking; the IMF, with all the problems that it has, has been pointing to all the problems that, for example, Mexico has, the extreme overvaluation of the currency and we accept that. The IMF has told the U.S. that they were running in the wrong direction and the U.S. has also accepted that. It is therefore not lack of analysis nor of advice, it is really lack of some authority for this international community.

The developing countries' problem is that they have to grow. Usually there is a need to grow due to overvaluation and very heavy deficits in the current account. It is very difficult, if not impossible, to find a way to persuade the poor countries not to grow so fast.

I agree that the middle power countries are the most interested in maintaining the multilaterality of international relations on the economic scene. Also that we have a lot to lose if this international order collapses. The big countries can defend themselves and the smaller countries perhaps do not have so much to lose because they

are not so dependent on international trade and finance.

Regarding the proposal of "banding together" I shall say the following: some of the middle-income countries have many different interests amongst themselves. The need is there, but it should be analyzed more closely to see if this "banding together" can really be effected.

Looking at what is now happening to the international finance system and to international trade, it appears that everything has come to a standstill; why this should happen I really do not know; as I said at the beginning, perhaps it is lack of political will among the very powerful countries. I have this hypothesis that this is partly due to some kind of dogmatism which we are finding in all these countries, especially in the U.S., which, on the economic scene, is particularly represented by this anti-inflationary dogmatism. I definitely agree that inflation is something which we have to fight and it is not a good thing but, if we were more balanced, we could look at the anti-inflationary fight as something that can give us some benefits at a cost; it is not just an overriding objective that we should pursue. When we start saying that only one objective is important we usually have some kind of dogmatism, we say: "All right, we now have this objective, we do not have to discuss anything because we know that everybody, especially the poor countries, is going to come out and say that we are doing wrong." The people living in the middle-income countries could analyze the facts better and not allow the discussions to deteriorate by talking about very old issues such as foreign investment or by trying to go back to the liberalization of trade. These are really old slogans. We should not forget all the deeper problems which we have had, in ideas, in the analysis, in this 25-year period, and we should pursue them.

Finally, progress in all social matters comes from ideas; if we now find this lack of political will it would not only be due to lack of interest but also to conservatism; it is not the interest of the East-West or of the North-South conflicts, but rather a way of looking at things. One useful thing we can do is to fight ideas with ideas.

Mr. David Hilton
(Bank of Nova Scotia):

I am a recent banker and I have learnt that I have to come to these forums and realize that in today's world

bankers are not the most popular of people. As Dr. Urquidi pointed out, if you go through your agenda today you have to rearrange it and you talk about finances. Yesterday I came across an adage in a magazine that said: "If you do not really understand the problem look at the financial interest."

Maybe for a few minutes while I talk about some of the refreshing ideas that have come up, we can relate back to recent experience from the problem of financial management that we have had.

The papers presented today had a great configuration in front of them: everybody is conscious that we are going through a set of global economic problems which most of us have not had to face in our adult lifetime, that to a large degree, they seem to be systematic, that they are having an uneven impact and perhaps a stronger impact on the developing countries of the world than on the industrialized countries and, in a political sense, they are really stretching if not bending or breaking the fabric of international cooperation that we have grown up with.

The problems of population and of food production are two topics that are not popular in political circles (one can go through a lot of North-South conferences without hearing the word "population"); those are problems that will have to be brought up as we start looking at an agenda for the '80s and '90s. But, as Dr. Helleiner said, one has to rearrange things and look at the current fabric of the international financial system. The paper gave us a recipe of not only the issues but of things which have to be looked at in priority.

There was a third underlying point that was made in Dr. Helleiner's paper which should be kept in mind but has been glossed over; he pointed out that in international financial management or in international economic management, the international institutions have not been the centre of things, that by and large, we have treated the World Bank and IMF as subsidiaries to a global system to fulfill functions that were described with some limitation when they were first formed and then, as the world changed, the organizations changed. But, in fact, much of the dynamic and the growth of the international system, over the last twenty five years, came from something that nobody has ever talked about here, which is the open market. That open market system has really served the West extremely well, both with respect to the formation of capital, the movement of that capital, the investment in

productive goods and services and, up until 1979, a period of unprecedented economic growth throughout the market system world. In fact, as Dr. Urquidi pointed out in his paper, whatever we look at ahead for the '80s and '90s there does not really seem to be anything that we can pull out of the socialist system, their track record has not been very good and their present problems are at least as intractable as ours are.

I will say a few words about the financial system and where the recipe may lie. Somebody has made comments about backing into the future, certainly the banks have been spinning their way into the future in the last twelve months. I think it is safe to say that the international banking system had no forecasting facility that allowed them to safety net the problems that they were faced with starting a year ago at the time when the Mexicans asked for a rescheduling of their debt.

In the 'ad hocking' that has gone on over the last twelve months, I honestly think you can pull some positive aspects from it. The international banking system has learnt to work cooperatively with the international institutions and is probably putting more life into those institutions than governmental conferences have been able to do in the last five years. You will not hear a prominent international banker speak against refinancing the World Bank or adding to the IMF liquidity. In fact, during the political debate in congress this year, the strongest representation in favour of the IMF was coming from the U.S. banking community.

Secondly, the banking industry has learnt that they are in for the long haul, they know that adjustment is not a model that is written on a computer and is given to the Ministry of Finance, in a country like Mexico or Brazil, and that everything is going to get out in 18 months and you are going to have a surplus on current account and unemployment may have increased from 25 to 27%, but that is all right; the bankers know that the adjustment process is going to take a long time. The banks, by and large, made that decision and backed it. The new money addition, the new addition to the liquidity of borrowing countries in Latin America last year exceeded 10 billion dollars; the amount of money which was rescheduled or on which repayment was foregone amounted to about 35 billion dollars. That was not paid by any governmental system, it was paid by organizations that are worried in a very short time frame about their profit position and their own capacity to raise capital so that they can grow.

The financial crisis is therefore real, but the backing into the future gives us some hope that you can muddle through and keep your eye out on the greater picture and on the longer run. I support those who say that the answer to our financial crisis, at the present time, is a wider one than the simple one of pumping more liquidity into the international system.

I would like to leave the following for discussion: some of the recipes that were given in the two papers, if not mutually contradictory, will have to be managed with great skill. I feel that there is a lot of eloquence and reason when Dr. Urquidi talks about the need for the developing countries to practise more self-reliance but, on the other hand, if self-reliance means the closing down of the economies then it seems to be just another added dimension to the protectionist policies on the trade side that we are already starting to find as inhibiting economic growth.

When we talk about the need of putting our trade and financial policies into the same analytical ambit we want to do it with some predictability, we are going to get the right results. I know, from my days of experience in the government, that the trade people are those who have the constituency in their own back yard and they are not the people who are the internationalists nor the ones who are really prepared to look at the longer run, and they understand extremely well the wider ramifications of a liberal policy, but their interests and pressures lead them to a conclusion that is not really the conclusion that we talked about, putting a saner international system together.

The point of how you initiate the process and get it going again is one that we have to be a little careful of. The '70s were very fashionable times for open-ended conferences. There were speakers who said this morning that we probably got carried away with our own rhetoric. We may have led ourselves to over-expectation and some of that may have discredited an international system that we, Mexicans and Canadians in this room, seem to agree that we badly need; but the rhetoric did tend to weaken a lot of the organizations and a lot of the conferences that took place in the 1970s.

We have in front of us an excellent panorama of our problem and we have been given some very solid ideas on where we may go, but I would suggest that we might want to put some intellectual discipline into our thoughts so as to make sure that we do not fall into mutually contradictory ideas of what is the best way.

Finally, going back to the earlier comment I can say that if we look back at where we have gone in the last 25 years we can see that we have done an awful lot without managing; the market system has served our respective countries particularly well.

THE FLOOR IS OPENED TO DISCUSSION:

Prof. Víctor L. Urquidi
(El Colegio de México):

I only want to make two brief comments. First of all I want to make clear that I was not arguing for a closing down in the developing countries; I am arguing for an inward look of a more rational nature leading us into a second wave of industrialization; this time on our own terms, with less transnationals and unneeded technologies, to produce less needless goods and more of the things that we really do need, such as equipment. We have the capability of carrying out and of cooperating with our respective equals among Third World countries. Historically, the developing countries have spent on imports every penny they have earned from exports and every penny they have borrowed from the different financial sources. No developing country has accumulated a lot, except for Venezuela which has very large foreign exchange reserves and, for a while, the OPEC countries accumulated tremendous surpluses but these are now disappearing and have been recycled and lost. They have been importing in great quantities.

It is therefore not a matter of closing down, the question is: what do we import? Do we import the unneeded goods, the consumer society gadgets, or do we import the things we really need so as to carry out development? I am not saying that our development patterns have been good, they have been bad; that is our fault, we have to improve them.

How can we look inwardly without being protective? If we are not protective we shall be swamped by the industrial countries again. What is actually looming is a new GATT, a new kind of international trade system which we have not yet thought out very well.

Secondly, Mr. Hilton underlines the fact that the market system has worked very well. There has been a very

widespread market system to such an extent that international agencies were supposed somehow to circumvent it with such things as soft loans. They have been left marginal and the banks are really the ones which have provided the money with no strings attached and with a very poor perception of what they were doing. This has led the market system into some very wild schemes and erroneous policies and a tremendous overexpansion in many countries. Look at what the market system has done in the Middle East. These countries now are landed with extremely high-cost industrial schemes which they have to finance with their own money and with whatever loans they can get at very fancy prices. Those markets were exploited by the sellers of equipment, just as the indigenous people of Latin America used to be exploited by being offered glass beads in exchange for their gold. The Middle Eastern countries gave oil and they got expensive equipment.

Last May at a meeting in Manila I heard quite a story which makes you feel a little bit skeptical about the generalized benefits of this great market system. Certainly in Latin America we cannot go back to ideas of a market system, we have had two or three recent experiences to show how foolish it was.

Prof. Gerald Helleiner
(University of Toronto):

I would like to make clear that I do not see any contradictions between Prof. Urquidi's presentation and mine, of the kind that David Hilton was suggesting. I see, rather, that there are at least three fronts about which one has to think simultaneously; one thinks of the structural issues that Prof. Urquidi emphasized; above all one thinks of the cyclical shorter run ones of which we both spoke briefly, and one thinks of the systematic questions dealing with governments. Addressing any one by itself is unlikely to be sufficient, addressing each is necessary. Somehow one has to find one's way through this thickness of the complex interactions; it is a question of which way you cut into this collection of things which sometimes creates an impression that there is disagreement when there is not.

Secondly, the following question was asked by Mr.

Bazdrech: Why the political problem of the moment? Why is there no political will and so forth? I suspect that one of the things that has happened is that the reaction within many market economies in the industrialized world, to what one might describe as over-governance in the U.S., the U.K. and Germany in particular, has been extended quite inappropriately to the international scene. What we are observing in domestic politics is an overreaction, although not everybody agrees, to governmental involvement, expanding rapidly over the entire post-Second World War period, in domestic and national economies — I alluded to that before. Throughout this period many market economists, even many from Chicago, would have said that the world is under-governed. The stabilization mechanisms and the equity-providing mechanisms are not in place and they never were.

We therefore find ourselves in a world in which domestic politics are being totally and inappropriately transferred to a world scene which has not improved in the slightest and I suspect that that is part of what is doing the damage. However, there are some grounds for hope. I shall tell you a short anecdote from the Canadian Department of Finance: Last week a fellow there came up to me and said: "You know, it seems to me that the positions that you express and those that we express are not so far apart any longer." I had to ask him whose positions have been changing over the years. Any crisis or danger has a way of concentrating the mind enormously and there is some movement in difficult times towards longer-run considerations but it may be that the necessary zeal has not been acquired yet and the world will have to get a whole lot worse before we arrive at anything analogous to "Bretton Woods."

I would like to clarify a couple of points: I did not mean to suggest that the solution for liquidity questions is to pump liquidity in, thus solving the problem. Unfortunately not everyone agrees on that and the Chancellor of the Exchequer and the Secretary of the U.S. Treasury do not believe that more liquidity is now required. I do, but that was not the point I meant to make, the point was that we need machinery for longer run appropriateness in the provision of liquidity. You need an IMF quota review system, an SDR provision system, a compensatory financial facility, all of which deal, in ways which we do not have time to pursue, with conditionality in a specific way. But it is the machinery that is defective; I am not suggesting any kind of solution.

On the last point, I certainly would not want to be misunderstood on this direct foreign investment issue. I wrote a paper for Prof. Urquidi's Madrid Conference on this very subject in which the point was that in the present times, with the obvious relative advantages in equity finance and increased risk sharing, there is a move by the International Chamber of Commerce and by other interests such as the Reagan administration to thrust direct foreign investment, at long last, down everyone's throat. People are being asked again to open their arms to the same phenomenon that existed there before.

It must be a balanced relationship in which codes, régimes and balance of approaches must somehow be found. One must not seize onto this too quickly, the lesson is risk sharing, equity and equity-like finance, not old-fashioned direct foreign investment and the challenges to find ways in which risk can be shared. Equity finance can be provided in ways that do not offend national sovereignty, do not inhibit indigenous development of various kinds. That is a substantial intellectual challenge and also a challenge, analogous to that in the trade régime, in the sphere of developing what the U.S. Council on Foreign Relations calls a Trade and Production Organization, a new kind of ITO of the 1990s.

Dr. Ian MacDonald
(President of York University):

One of the most important parts of Prof. Helleiner's paper was point 5: "The Need for Increased Long-Term Capital Flows for Development." As I look at its potential sources in the developed world at this particular time when most economies are going through major transformations in their structure, particularly of a kind that requires long-term capital investment of a venture capital nature for their own requirements in dealing with technological change, I am not terribly optimistic, as I see it, that that is going to be forthcoming to the degree or in the kind that Prof. Helleiner thinks is essential, and I agree with him that it is essential. Have you any reason to be any more optimistic than I am?

PROF. HELLEINER'S ANSWER TO DR. MACDONALD'S QUESTION:

I suspect that it is because of a difference in temperament that I continue to push in directions which I realize are not very hopeful; in fact there is not much to hope for in international bond markets for developing countries, nor in the sphere of these new equity-like arrangements without a whole lot more intellectual imports. So the easy solution is to go for direct foreign investment and even that is now at risk. We have a situation now in which the major international institutions that provide this kind of finance are under fire, the World Bank, not only IDA or the soft loan end of the bank, but the World Bank itself is being severely inhibited. It has more sound development projects available on its plate waiting to be financed, certainly justifying the payment of the present commercial rates of interest, their rates of return are more than adequate and yet they are being bound essentially by ideology in Washington regarding the degree to which they will be permitted to finance projects. The private capital, the rate of return and the intermediation mechanism are there to finance them and yet the bank is not being allowed to move.

That kind of instance is one of those where ideas, vigorously put, may achieve some breakthrough. But you cannot break through those who will not and do not want to give money to IDA with that kind of idea, this is just a value point.

A CANADIAN DELEGATE:

I agree with the point that Dr. Helleiner raised, as Dr. MacDonald pointed out, that the need for some assurance on long-term capital flows is there and you cannot overlook the need of a greater amount of strictly concessional money that a large part of the world is not really going to come in on a financial system, whether you want to call it a capital market system or not. I do not have the answer but there are two things we have to remember: one is that the bulk of that money, over the last

25 years, has always come bilaterally and not multilaterally, that there was a configuration of political stars that led the industrialized countries to favour bilateral approaches and then the circumstances that Dr. MacDonald described started cutting into that, around 1976 or 1977. I can remember well being in the Department of Finance towards the end of the '70s and saying: "We have no more money for aid (Canadian aid had been increasing about 15% a year), but is it not wonderful that the commercial banks are recycling the petrodollars?" I am sure that there were people saying that in every industrialized country in the world the banking system was filling a gap that they themselves were not prepared to fill any longer.

I agree with the point that you have to go back to the international institutions, particularly the World Bank and the regional development banks because, among other things, they have leverage given their capital base. But we are out of ideas there, it is not only a question of political support but it is a question of ideas. There are one or two ideas that are going around: the idea of co-financing in which officials in this country have been deeply involved, but they are going to operate only at the margin and the next financial crisis is going to be a large number of very poor countries falling off the edge.

SECTION 3

# POLICIES ON BASIC RESOURCES: ENERGY AND FOOD. TECHNOLOGICAL COOPERATION

# ENERGY POLICIES IN CANADA

*John Foster*

## EXECUTIVE SUMMARY

### The Canadian Energy Scene: Current Issues

### OIL

There is some uncertainty about the future of national energy policy. This is likely to persist as long as the course of world oil remains unclear.

Although in recent months there has been a slight improvement in the financial state of the petroleum industry, there are no expectations of a significant increase in demand. Recent substitution and conservation are likely to offset any increased demand resulting from the end of the recession.

Lately, there appears to have been a significant improvement in the once acrimonious relations between the Federal Government and the petroleum industry. The decline in oil revenues for both government and industry seems to have encouraged a more cooperative approach between the two parties. Spokesmen from the industry see the conciliatory style of the present Minister for Energy as having contributed to this development.

There are growing doubts about the economics of expensive frontier exploration and development at a time of levelling off of world oil price rises. Plans to develop the lucrative Hibernia field are still in abeyance, pending final settlement of the Federal-Provincial dispute over jurisdiction. These factors have created concern over Canada's ability to achieve its goal of oil self-sufficiency by 1990.

The Federal Government has become increasingly concerned about the high cost of the exploration and development incentive grants for the frontier areas. As a result, it has recently passed regulations making it more difficult to obtain them.

Following the demise of two heavy oil mega-projects in 1981-1982, investment activity is stirring again in this field. A number of companies have in recent months announced plans to build scaled-down plants for the production and upgrading of heavy oil and tar sands.

## GAS

There is presently concern about how to keep the price of natural gas at 65% of that of crude oil when the Natural Gas and Gas Liquids Tax runs out.

Canadian natural gas sales to the U.S. are weak because of a surplus in that market.

Consequently, there have been pressures by the U.S. Government and gas purchasers to reduce the price of Canadian gas.

Canadians remain concerned over the fact that the U.S. has not yet constructed its part of the Alaska Highway Pipeline.

## ELECTRICITY

The nation's two largest hydro-electricity producers -Ontario and Quebec- currently possess major surpluses of electricity, but do not have enough customers. In the case of Ontario, inability to find new customers for this surplus might mean higher prices for current customers, in order to enable the province to pay off the debt on its costly nuclear construction program.

Hydro-Quebec's aggressive marketing of electricity for industry conflicts with the Federal Government's goal of encouraging the use of natural gas. Having already invested $500 mn in the Trans-Quebec & Maritime Pipeline, the latter must also successfully promote natural gas in Quebec to justify this massive expenditure.

The Canadian nuclear industry continues to be

plagued with serious financial problems arising from a lack of demand, both at home and abroad, for its product. As evidence, Canada recently agreed to an unusual barter sale of a CANDU reactor to Romania. There are slim prospects for other sales abroad at this time.

A recent incident involving a major leakage from the primary heat transport system of a CANDU reactor in Ontario -previously assumed to have been unlikely to occur- adds to the uncertainty clouding the industry's future.

## COAL

Presently, the market is quite depressed. Steel mills buying Canadian coal have decreased their prices.

# ENERGY POLICIES IN CANADA

## A. ENERGY OVERVIEW

The Canadian energy scene is complex. Canada has one of the highest per capita consumptions of energy in the world (7,043 kg oil equivalent in 1980, versus an average 4,151 kg for industrial market economies as a whole and 1,217 kg for Mexico - United Nations Yearbook of World Energy Statistics, 1980). This high level results from Canada's relatively cold climate, the energy-intensive nature of many of its economic activities, and great distances for a relatively small population. As in other countries, of course, there are also inefficiencies in energy use.

In 1982 about 39% of primary energy used in Canada came from oil products and LPG, 31% from primary steam and electricity, 19% from natural gas and 11% from coal. About 31% of energy is used in industry, 28% in transport, 23% in residences and farms, and 18% in commerce and services.

Canada is rich in energy resources. Its primary energy supplies are varied. They include oil, natural gas, coal, nuclear and hydro power, some wood, and -to a small extent- various other forms of renewable energy. Canada is a major producer of oil, natural gas, coal, hydro-electricity, and uranium.

On balance, it is a net exporter of energy, including natural gas, coal, and electricity. Its net imports of oil have virtually disappeared this year.

There is great disparity in the regional distribution of energy resources. The preponderant consuming provinces are Ontario and Quebec, where two-thirds of

the nation's population lives. They have large hydro resources but otherwise are basically energy-deficit provinces. For its part, Ontario imports considerable amounts of coal from Pennsylvania and increasingly from Alberta to generate electricity. With its hydro resources mostly tapped, it has turned increasingly to nuclear power. Ontario Hydro operates one of the world's largest nuclear generation systems. The other energy-deficit provinces are Manitoba and the Atlantic provinces, importing oil from the western oil-producing provinces and from abroad, respectively.

British Columbia, Alberta and Saskatchewan are energy-surplus provinces in oil, gas and coal. In the east, the recent discoveries of gas offshore Nova Scotia and oil offshore Newfoundland could turn them from energy deficit to surplus.

Thus, Canada has within itself the microcosm of energy-surplus and deficit countries. The increases in world oil prices since 1973 have been reflected domestically in a transfer of real resources from the energy-importing to the energy-exporting provinces. In a number of aspects this mirrors the relationship of oil-exporting and industrialized oil-importing countries.

The increase in world oil prices brought prosperity to the energy-surplus provinces, while the recent decline in these prices has deflated the heady OPEC-like boom there. Conversely, the energy-deficit provinces were particularly vulnerable to the economic recession but are now experiencing revival.

Canada has had its share of economic downturn, unemployment, government deficit financing, high interest rates, and inflation. It has been fortunate enough not to have suffered the severity of inflation and indebtedness experienced by other countries including Mexico.

## B. ENERGY STRATEGIES AND POLICIES

### 1. Background

Given all this, it is not surprising that energy policy strategy has been a key issue in Canada during the past decade. It has also been a matter of great debate and

indeed acrimony, since it impinges on so many interests within the economy.

Compared with most other countries with federal constitutions, the provinces in Canada have a large degree of power relative to the Federal Government. This includes ownership of natural resources and the ability to levy taxes in certain specified areas. The provincial governments have had differing perceptions among themselves regarding energy prices, export levels, revenues, fiscal and economic policies; the Federal Government has seen itself as arbiter for the nation.

Federal governments in Canada have devoted considerable efforts to formulating energy-related policies since 1973.

The most important and most comprehensive of these policies to date is the federal National Energy Policy (NEP) implemented by the Liberal Government in October 1980. It was designed as a cornerstone for the nation's economic destiny in years to come. The subsequent federal-provincial agreements on taxes, royalties and investment incentives were reached with a view to determining the distribution of the expected massive increase in revenues. These were originally envisaged in the NEP to amount to as much as $214 bn in the five years 1981-1986.

## 2. The National Energy Programme

The Federal Government's paper outlining the NEP in October 1980 set forth four major reasons for the Programme.

i. The Government felt a need to shield and stimulate the economy at a time of rising international oil prices. Growing dependence on imports was considered unnecessary and imprudent, as it would make Canada vulnerable to economic and political pressures.

ii. The Government wished to promote increased Canadian ownership and control in the oil and gas industry, which had been heavily dominated by foreign interests.

iii. The Government saw need to change the fiscal structure of the petroleum industry, in order to improve its share of revenues and thereby benefit Canadians in non-producing provinces.

iv. There was a desire to avoid an "excessively prolonged" and potentially divisive debate on energy prob-

lems at a time when decision, management and unity were needed.

The Programme has three major, well-known objectives:

i. Security of energy supply and ultimate independence from the world oil market.

ii. Increased opportunity for Canadians to participate in the petroleum industry.

iii. A petroleum pricing and revenue-sharing regime which recognizes the need for "fairness" to all Canadians regardless of where they live.

## 3. The 1981 Canada/Alberta Agreement

Subsequent to announcement of the NEP came a lengthy round of negotiations between the Federal Government and the governments of oil-producing provinces. The first and most arduous negotiations were with Alberta. The resulting agreement on Energy Pricing and Taxation (EPTA) became a pattern for other provinces - British Columbia, Saskatchewan and Nova Scotia.

Alberta had strongly objected to the NEP in its original form, denouncing it as arbitrary, discriminatory, and a blatant attempt to take over the province's resources. It accordingly announced a programme of oil production cutbacks and the suspension of work on two major oil sands projects. The dispute between the two governments was to prove costly to the economy.

Resolution of the conflict required not only higher oil and gas prices than envisaged originally by the Government, but also clarification of several other issues, including resource ownership and control, distribution of economic rent, fiscal regime and the nature of Canadian energy policy formulation.

The major features of the Canada-Alberta agreement are the following:

### a. Pricing

i. a two-tiered wellhead pricing regime for conventional oil;

ii. a faster schedule of price rises than envisaged in the original NEP;

iii. establishment of the New Oil Reference Price (NORP) (effectively the world oil price), for producers of oil discovered after January 1, 1981;

iv. a ceiling on gas prices of 65% of oil delivered to Toronto;

b. Fiscal

i. a rise in the Petroleum and Gas Revenue Tax rate from 8% to an effective 12%;

ii. cancellation of the federal proposal to tax exported gas;

iii. setting of the Natural Gas and Gas Liquids Tax (NGGLT) at 65% parity with crude oil;

iv. introduction of an Incremental Oil Revenue Tax.

The two parties anticipated that this agreement would result in their sharing about C$214 bn in petroleum revenue in 1981-1986, the period of the agreement. This is now unlikely, in view of the dampened world oil market.

When it became increasingly evident in early 1983 that the agreement's pricing policies were no longer viable, negotiations between Ottawa and Alberta were resumed. The result was an eighteen month agreement, signed June 30, 1983, which revised the pricing regime. The agreement is expected to inject about $250 mn into the troubled petroleum industry during this time, with medium-sized Canadian firms the prime beneficiaries. The policy changes are discussed in the section on oil and gas pricing.

The NEP and subsequent revisions consist of policies in four major areas, discussed below:

i. oil and gas pricing;

ii. taxes;

iii. incentives; and

iv. Canadianization.

The paper subsequently examines issues and policies pertaining in turn to oil (to which the NEP is largely addressed), gas, coal, electricity, and renewable energy.

## C. OIL

### 1. Overview

#### a. Production

Oil is a major component of the Canadian energy sector, with respect to both production and consumption. Canada has for many years been one of the world's dozen or so leading producers. In the past decade production has averaged 1.5-2.1 mn b/d. In 1982, production of 1.5 mn b/d was half that of Mexico's.

Production has until the mid-1970s exceeded consumption. However, with the gradual exhaustion of conventional oil reserves, this has reversed itself. The net demand for imported oil has varied greatly since then, as low as an average 5,000 b/d in 1978 and as high as 210,000 b/d in 1980.

About 86% of Canada's crude oil is produced in Alberta, where the first major find was made in 1947. Saskatchewan produces about 10%. Small amounts are also produced by British Columbia, Manitoba, the North-West Territories, Ontario and New Brunswick. Total proved reserves of crude oil and NGL are estimated to be 8.3 bn barrels.

While Canada has historically been able to supply all or most of its petroleum needs, it has engaged in a sizable trade of energy. Large quantities of Canadian oil are exported to the United States, while eastern Canada imports a large percentage of its needs from countries such as Saudi Arabia, Venezuela, and Mexico. This occurs because of the size of the country, which makes it cheaper to import oil by ship to Quebec and the Atlantic provinces, than to have it pipelined across the breadth of the country.

Most exports are heavy oils (200,000 b/d), which are in surplus because of small domestic demand and refining facilities. For several years Canada did not permit export of light crudes, whose supplies are more limited. This ban was lifted earlier in the year because of low domestic demand for these crudes.

b. Uses

According to 1982 statistics, oil products and LPGs constituted about 39% of gross available energy sources in Canada. About 45% was used in transport, 38% for heating and steam raising, 10% for non-energy purposes such as asphalt, petro-chemicals and lubricants, and the remaining 7% was used as fuel in oil refineries.

Oil and its by-products make up about 95% of energy used in the transport sector, 35% in the residential and farm sector, 22% in the industrial sector and 34% in commerce and services.

c. Refining

At the beginning of 1983, total Canadian refining capacity stood at 2.02 mn b/d, a level which has not changed significantly in the past decade. About 60% of this capacity is located in the major population centres of southern Ontario and Quebec. Ontario has two main refining centres, in Sarnia and southwest of Toronto. Quebec has the country's largest refining centre at Montreal, as well as one at Quebec City. British Columbia has seven refineries, most close to Vancouver. Other significant refineries are found at Edmonton, Alberta; Saint John, New Brunswick; and Dartmouth, Nova Scotia.

d. Transport

Canada has an extensive network of pipelines to transport oil across the country, including about 20,000 km of mainline conduits. Pipelines also move Canadian oil to the U.S. Midwest, Northwest, and upper New York state. Most crudes move through the systems of Interprovincial Pipe Line Ltd., which moves oil to the east, and the Transmountain Pipe Line Company, which moves it to British Columbia. In 1982 about 74 mn cubic metres (465 mn barrels) were delivered to Canadian refineries via pipeline.

2. Oil Pricing

a. Domestic Oil

Prior to the NEP, wellhead prices for oil produced in Cana-

da had been significantly lower than world prices. The NEP and federal-provincial agreements introduced major but gradual and scheduled price increases. Since 1981, domestic prices have followed the trend of international prices but have basically remained below them. This is designed to protect the economy from the shock of sudden and large shifts in the price of oil. They also seek to stimulate exploration and development activities; encourage consumers to improve efficiency in energy use; shift consumers from oil to other energy sources; and increase the Government's revenues from the petroleum sector.

The wellhead price of crude oil produced in Canada depends on whether it is old oil ("conventional" oil) or new oil.

The exact definition of old oil and its pricing regime has altered on more than one occasion since the formulation of the NEP. Since the June 30, 1983 agreement between the Federal Government and the Province of Alberta, it has been defined as conventional oil discovered before April 1, 1974. This oil is to continue receiving C$29.75/barrel (in effect since January 1, 1983). Up to the revised agreement, the price of old oil had not been permitted to exceed 75% of the world price. Now its price is to be frozen at 83% of the current world price. However, if the world price should rise and the domestic price fall to less than 75% of the new price, domestic prices will be increased to that level as stipulated in the original agreement. At the same time this price will not be allowed to exceed the world price. Should the world price fall below C$29.75, the price of old oil will fall accordingly. Old oil makes up about two-thirds of the domestic oil used in Canada.

New oil, as defined by the aforementioned agreement, now includes:

i. conventional oil discovered after March 31, 1974;

ii. oil produced from wells drilled in gaps in existing fields;

iii. synthetic oils;

iv. production from the Canada Lands (i.e. territories not under the jurisdiction of the provinces, such as the Arctic or offshore areas).

v. all existing tertiary recovery and experimental projects, providing that certain tests regarding royalties are met;

vi. certain wells that have suspended production for at least three years.

These receive the New Oil Reference Price (NORP),

which is effectively the international price. Nevertheless, a considerable proportion (42% according to one estimate) of this oil is selling above the international price -in some cases as much as C$5.00 higher- for the equivalent crude. This is because the price differential between the highest quality and lowest quality oil in Canada is not as wide as that for similar foreign oil. Consequently, heavier oils currently are priced at $2 and $5 per barrel more than similar crudes from Venezuela, while lighter quality oil receives $0.85 to $0.90 more than similar imported oil. The Federal and Alberta governments have committed themselves to eliminating this problem by the end of the year.

b. Imported Oil

Refiners who process imported crude oil purchase it at higher prices than domestic crude delivered to Toronto or Montreal. However, it was and is Federal policy to make crude oil available throughout Canada at similar basic prices.

Earlier, an oil import compensation programme existed, under which importers of foreign oil paid the international price but were reimbursed by the Federal Government for the excess of that price over the Canadian domestic price at Toronto. Imported oil was valued monthly as if all imports into Eastern Canada were delivered to Montreal via the Portland pipeline. Similar compensation was also given to refiners of synthetic crude oil derived from the tar sand deposits in Alberta, since they had bought it at world oil prices. The compensation subsidy came from general government revenues, though in practice oil exports were large enough that the export charge in a sense provided the requisite revenue.

Under the NEP the various prices for imported and Canadian oil, whether old or new, are blended to produce a single weighted average price for Canadian consumers. Presently, this price is about 90% of the world price and is expected to be several points closer in the fall. To produce this blended price, domestic refiners using imported and NORP oil receive subsidies from the Federal Government to bring down their crude oil costs, so that they equal the costs of those using conventional domestic oil.

At the same time, an imposition called the Petroleum

Compensation Charge is levied on domestic refiners in an amount sufficient enough to provide these subsidies. Now it is the petroleum consumer who pays for the subsidies rather than the federal treasury.

The PCC is currently fixed to a maximum of $75/cubic metre ($11.92/barrel). The actual amount was set at $39.64/cubic metre ($6.30/barrel) on December 1, 1981 and was lowered to $23.64/cubic metre ($3.76/barrel) on January 1, 1983.

## 3. Taxation and Royalties

### a. Income Tax

The federal and provincial tax structures for the oil and gas industry are basically the same as for any other corporations, except for the treatment of royalties. Nevertheless, there are a number of provisions which give these firms special treatment with respect to their Canadian activities. The most important of these concern certain exploration and development expenses which are capitalized and are, consequently, not deductible on a current basis.

As part of the NEP's incentive system for oil and gas, the earned depletion allowances provided for in the tax legislation have been eliminated or are being phased out for most exploration and development activities.

Earned depletion or an equivalent incentive is to be retained for new synthetic oil projects and for prescribed enhanced oil recovery projects. The Government is prepared to provide earned depletion to tertiary recovery projects upon agreement with the specific province concerned.

These policies came into effect because the Government felt that earned depletion allowances were not an appropriate exploration and development incentive to the industry, given the goals of the NEP. They did not specifically promote new exploration.

### b. Royalties

These are paid to the provinces on production from provin-

cial lands and to the Federal Government on production from lands not controlled by the provinces.

### c. Petroleum and Gas Revenue Tax

This is the major new fiscal instrument of the NEP. It is used mainly to help finance the Petroleum Incentives Programme (to be discussed).

The Government introduced this tax on the grounds that, while the existing tax structure had provided generous investment incentives, especially for larger firms, the federal tax base had suffered erosion. Some large and profitable petroleum producers were left in a position where they paid no tax at all, a degree of incentive which is regarded as both unnecessary and unfair to the taxpayer. The major goal of the PGRT has been to bring about what in the Federal Government's view would be a fairer sharing of the economic rents of oil production. Against the objections of many in the industry, the Government argued that this tax would leave the industry with sufficient cash flow.

The PGRT is a tax of general application to the net operating income from the production of oil and gas. It is basically a non-tax deductible federal royalty. Its current effective rate is 11%. In 1982 the Government collected $1.45 bn through the PGRT. The bulk of these funds -$1.3 bn- were paid out as PIP grants.

Because the PGRT is not deductible in the computation of income tax and on account of the fixed selling price for oil and gas, its full impact is borne by the producers. This has been another reason for industry's objection to the tax.

### d. The Incremental Oil Revenue Tax

Under the agreement with Alberta the Federal Government indicated that it would introduce an imposition, effective January 1, 1982 to tax the incremental revenue earned by producers of old oil in Alberta.

Nevertheless, the IORT has been effectively suspended since June 1, 1982. The earliest that it will be reintroduced, if ever, will be June 1984. Suspension of the IORT

removes grounds for Alberta's concern that its recent royalty reductions might be taxed away by the Federal Government.

Some in the industry have argued that the continued suspension of the IORT will make no practical difference to the oil industry as a whole. What it manages to save through the IORT's suspension will be taken away from it through income tax. It has even been suggested that the industry as a whole would wind up paying less tax if the IORT had been imposed.

However, the tax does not affect all in the same way. The winners are those with sufficient write-offs from exploration to allow them to avoid paying income tax. They would have been required to pay the IORT, had it been imposed. As Mr. Lalonde, then Minister for Energy has stated, the IORT suspension benefits "Canadian companies that are the most aggressive in searching for new supplies of oil and gas."

e. Oil Export Charges

These are based on the concept that there should be no incentive to export oil so long as Canada remains a net importer. They were first introduced in 1974 to enable the Federal Government to collect the difference between the world and domestic prices. At the present time, because of market conditions, these taxes are on the whole effectively nil.

Under the NEP, half of these charges go to the two oil producing provinces.

f. The Canadian Ownership Special Charge

The Energy Administration Act gives authority to impose a special charge on the sale of oil and natural gas in order to help finance the NEP goal of permitting Canadians to acquire control of the domestic operations of a number of large foreign-controlled petroleum firms. Since May 1981 this tax has been $1.15/barrel (0.8 cents/litre) for oil and 15 cents/mcf for natural gas, used domestically. The charge is borne directly by the consumer. The funds collected are then credited to a Canadian Ownership Account

and used for acquiring assets, such as those of Petrofina in 1981.

At the present time, the Government intends to interpret the purpose of the tax more liberally and use it to help pay for other energy programmes. Officials have indicated that it could be used to pay some of the costs of holding down the price of natural gas, to finance a public investment in oil sands megaprojects, and to provide more equity for Petro-Canada or federal E & D incentives. It has indicated in the April 1983 budget that the tax will remain indefinitely, thereby adding almost $1 bn p.a. to its revenues.

Critics have suggested that the real reason for the change in its use may be because the Government needs a way to cut into the high deficits predicted for the coming years since currently its takeovers appear politically imprudent and it is short of revenues. They describe the tax as being excessive and the intention to revise its use as wrong.

## 4. The Petroleum Incentive Programme

The Petroleum Incentive Programme (PIP) has the purpose of:

i. encouraging investment in the oil and gas sector by Canadian individuals and companies;

ii. promoting greater Canadian ownership of the petroleum industry;

iii. providing some compensation for the loss of depletion allowances.

It makes available direct incentive payments for exploration and development to firms -both taxable and non-taxable- as well as to individuals.

The programme is administered by the Federal Government, through the Petroleum Incentives Board, which answers to EMR. In Alberta it is run jointly with the provincial government.

Grants are awarded as a percentage of eligible costs. They can be quite generous. A Canadian-owned firm exploring offshore or in the Arctic can get back as much as $.80 for every $1 that it spends.

Companies that do not have a sufficient degree of Canadian control do not qualify for PIP grants except in respect of exploration costs incurred on Canada Lands. The

higher the applicant's Canadian Ownership Rate, the higher the grant. Exploration on Canada Lands receives higher grants than that conducted on provincial lands.

PIP has been criticized for its tendency to distort investment decisions in the petroleum industry to serve ideological aims rather than economic rationale. Investments are being diverted away from projects in which they would presumably be economically efficient to those satisfying political criteria. Consequently, it is seen as promoting economic inefficiency in the sector. This is so to the extent that some analysts of Canadian energy have become increasingly skeptical of the Program's ability to meet one of its major goals: the realization of petroleum self-sufficiency for Canada by 1990.

The producing provinces have criticized the programme on the grounds that in their view it has helped to divert exploration away from their lands to the frontier regions (Federal Government controlled) favoured by the PIP. According to the Petroleum Monitoring Agency, drilling in the provinces fell from $2.4 bn in 1981 to about $1.6 bn in 1982. During the same period frontier drilling rose from $1.2 bn to $1.6 bn.

Presently, the Government appears increasingly concerned about the cost of the PIP. In 1982-1983 it cost $1.3 bn; estimates for 1983-1984 suggest it could run as high as $1.9-2.3 bn. One reason for such a large increase is recent sharp rises in the cost of drilling in the Arctic. At the time of writing, the Minister of Energy has expressed the intention of reducing the allocated funds and making it harder for applicants to obtain assistance.

## 5. Canadianization

As noted already, one of the major goals of the NEP is to increase substantially Canadian participation in the domestic petroleum industry.

The NEP provided four major reasons for seeking this goal:

i. There was concern that rising oil prices would push asset values of foreign-owned firms to levels which would discourage acquisitions by Canadians.

ii. It was feared that oil sands investments by foreigners would add to their already high share of assets in the industry.

iii. The Government desired that a larger share of industrial benefits from large-scale energy projects accrue to Canadians through the employment of fewer foreign managers and the purchase of a greater proportion of capital in Canada.

iv. There was concern that foreign control of land upon which exploration occurs, as well as the reinvestment of large cash flows, would increase the power of foreign companies to dictate the priorities and pace of Canada's energy resource development.

Canadianization is to be carried out in three ways:

i. At least 50% Canadian ownership of oil and gas production by 1990.

ii. Canadian control of a "significant" (NEP Update, May 1982) number of the larger oil and gas firms.

iii. An early increase in the share of the oil and gas sector owned by the Government of Canada.

Concrete steps toward these goals include:

i. The Petroleum Incentives Grants designed to encourage Canadian owned and controlled firms to explore.

ii. A reservation of a 25% interest in the Canada Lands for the Federal Government.

iii. A requirement that the overall average Canadian ownership of a producing field in the Canada Lands (territories not under provincial control) be 50%.

iv. The "Canadian Ownership Tax," which provides a fund for the purchase of shares in foreign owned or controlled petroleum companies.

### a. Canadian Ownership and Control

At the heart of Canadianization policies lies the concept of the Canadian Ownership Rate (COR), a number which indicates what percentage of a firm's assets are under Canadian control. In recent years the Government has tried to influence the degree of domestic ownership in industry by means of the Foreign Investment Review Agency. COR is a more direct means of influencing this variable since it relies on fiscal incentives.

To be eligible for Canadian status a firm must demonstrate that it is under the _de facto_, as opposed to strictly legal, control of a Canadian(s) via a complicated and detailed set of regulations. For example, a corporation is regarded as non-eligible if 5% or more of

its voting shares are owned by a non-eligible person (i.e. neither a Canadian citizen or a landed immigrant) or by a corporation based outside of Canada, or if the aggregate holdings of its voting shares by individuals who are non-eligible persons exceeds 25% in the case of publicly traded shares or 40% in the case of privately traded shares.

b. Petro-Canada

The Canadian national oil company, Petro-Canada, is an important instrument in the Government's Canadianization efforts. It was established by an Act of Parliament in 1975 "to explore for hydro-carbon deposits, to negotiate for and acquire petroleum and petroleum products from abroad to assure a continuity of supplies for the needs of Canada, to develop and exploit deposits of hydro-carbons within and without Canada in the interests of Canada, to carry out research and development projects in relation to hydro-carbons and other fuels, and to engage in exploration for, and the production, distribution, refining and marketing of fuel."

In its first years the corporation was very controversial, having been viewed with suspicion as an instrument of the Liberal Government to extend its control over a major, privately-controlled industry. The Progressive Conservatives opposed its creation and during their period in power in 1979 considered dismantling it. Nevertheless, the controversy has by now subsided and all three major political parties accept it as a legitimate participant on the Canadian energy scene.

Petro-Canada has quickly grown into one of the five largest petroleum firms in Canada with a total asset base of about $7.5 bn. Revenues in 1982 were $3.38 bn ($2.71 bn in 1981) and net, undistributed earnings were $131 mn ($204 mn in 1981). It is the only national, fully-integrated, Canadian-owned oil company. Its rapid growth is largely due to a number of major acquisitions of foreign subsidiaries in Canada. These include:

i. Atlantic Richfield Canada for $343.4 mn in 1976;

ii. Pacific Petroleums for $1.5 bn in 1979;

iii. Petrofina Canada for $1.46 bn in 1981;

iv. The refining and marketing assets of BP Canada for $346.5 mn in 1982.

Petro-Canada devotes a lot of attention to offshore exploration and related activities. About 35% of its capital budget in 1982 was spent on these activities. It is the only large Canadian landholder in the highly prospective east coast offshore and is a participant in every major offshore and Arctic play. In 1982, Petro-Canada took part in 27 of the 39 wells drilled in these frontier regions.

It conducts exploration on the Scotian Shelf, the Grand Banks, and offshore Labrador. Its activities in the Arctic are carried on through Panarctic Oils, in which it is the main shareholder.

Its mainland exploration activities in 1982 included 128 exploratory wells (52 oil, 28 gas, and 48 dry and suspended) and 316 development wells (129 oil, 138 gas, and 49 dry). Almost all of these wells were in Alberta.

Petro-Canada's total oil production for 1982 (before royalties) was 58,600 b/d; total natural gas production (before royalties) was 373 mcf/d.

The corporation also takes a strong interest in heavy oils and tar sands and is a partner in Syncrude and Canstar. It is engaged in studies and pilot projects in enhanced heavy oil recovery by steam and fire-flooding, _in situ_ tar sands recovery methods, and heavy oil upgrading processes.

The corporation's total sales of gasoline and distillates in 1982 was 28.9 mn barrels, up from 25.3 mn barrels in 1981. At the end of 1982, its marketing system included about 1,400 service stations, 125 sales agencies and 100 bulk outlets.

In 1982, Petro-Canada continued to act as the agent for the Mexican oil imports, which totalled 52,800 b/d (about 35% of total crude imports), in comparison to 49,700 b/d in 1981.

Among other activities, Petro-Canada holds or has held interests in domestic coal fields, North Sea and offshore Spanish fields and has engaged in seismic drilling off the coast of the People's Republic of China.

In 1980, a subsidiary, Canertech, was established for the purpose of assisting the development of commercial alternate energy projects in Canada.

The following year another subsidiary, the Petro-Canada International Assistance Corporation, was established. It uses funds supplied by the Government in

order to provide assistance to developing nations in exploring and developing indigenous oil and natural gas resources. Presently, it is engaged in projects in Tanzania, Jamaica, Senegal and Barbados.

c. Foreign Acquisitions

The Government emphasizes that its Canadianization efforts are not be interpreted as meaning that foreign investment is no longer desired in the petroleum industry, only that a greater proportion of this investment must originate from within Canada.

In addition to the aforementioned Petro-Canada acquisitions, the Canada Development Corporation formed in 1981 a new oil and gas firm, Canterra Energy Ltd., out of the interests of Aquitaine, Texasgulf, and CDC Oil and Gas Ltd. In 1982 it paid out $600 mn to acquire the assets of Texasgulf Canada.

In December 1981 the Cooperative movement and the Government agreed to work together to develop an investment vehicle that allows the many cooperative members across Canada to participate in the oil and gas sector. Three new organizations have come out of this: the Cooperative Energy Association, a holding company; the Cooperative Energy Development Corporation, an oil and gas exploration and development company; and the Cooperative Energy Investment Fund, a trust fund. The Government is to invest $100 mn over a five-year period to match investment funds generated by the cooperatives themselves.

Important initiatives have also come from the private sector. In June 1981 Dome Petroleum acquired part of the Hudson's Bay Oil and Gas Co. assets. The takeover was completed in March 1982 for about $2.0 bn altogether. Another 10 Canadian firms spent nearly $2.7 bn in 1981 to purchase assets of foreign-owned firms. Aberford Resources acquired Marathon and Pan Ocean for $225 mn and Harvard Resources acquired Tenneco for $150 mn both in 1982.

By July 1982, about $7.7 bn had been spent to purchase foreign assets. However, the costs of takeovers and worsening conditions in the industry resulted in a significant slowing down of takeovers in 1982. The takeovers were financed by floating rate loans through Canadian chartered banks, which in turn borrowed U.S. funds to pay erstwhile owners.

As a result of this policy the rate of Canadian con-

trol (based on petroleum-related revenues) has risen from 18.7% at the time of the implementation of the NEP in 1980 to 26.2% at the end of 1982. Canadian ownership during this period has risen from 26.1% to 34.2%.

d. Reaction to Canadianization

It has been argued that, political appeal notwithstanding, no convincing economic reasons for Canadianization measures are to be found. They may, in fact, be an unnecessary and wasteful method of securing resource benefits for Canada.

New energy taxes and regulatory devices introduced in the NEP have effectively reduced windfall profits and industrial benefits flowing to foreigners. Yet, the purchase of foreign petroleum companies imposes significant long term costs over and above the benefits generated by the new taxes and regulatory mechanisms.

Opponents of the NEP argue that there is evidence to suggest that none of the four rationales originally cited in justification of Canadianization may be presently valid.

i. While book values of foreign-controlled companies have increased slightly, their acquisition cost, as indicated by their values on the Toronto Stock Exchange Index, has dropped significantly since mid-1981. Canadian companies were lured by the NEP into making their acquisitions at the peak of the oil price boom and the beginning of the PIP. These factors appear to have led buyers to overestimate the value of the assets which they acquired.

ii. The oil sands projects have been shelved. The NEP, anyhow, had included a provision that development of the sands required at least 50% Canadian participation.

iii. The achievement of a larger share of industrial benefits for Canadians via energy development can be accomplished through means other than Canadianization, such as the Office for Industrial and Regional Benefits established in 1981 "to ensure that megaprojects make maximum possible use of Canadian planning skills, project development ability, machinery and material supply capability and capacity for further pro-

cessing of resources." As well, the shelving of many of the foreign-controlled major projects could permit more time for the development of Canadian skills and sources of supply.

iv. The ability of foreign-owned firms to infringe upon national sovereignty over the energy sector is already circumscribed by an extensive set of regulations and taxes which ensure Canadian sovereignty over this important sector of the economy.

The acquisitions of foreign properties, in the view of the Governor of the Bank of Canada, among others, appear to have contributed to the downward pressure on the Canadian dollar and the upward pressure on domestic interest rates in early 1981.

In an analysis carried out by the Bank of Montreal (Bank of Montreal, "Canadian Corporate Takeovers: Some Economic Impacts," Montreal, July 28, 1981) it was found that the takeovers weakened the Canadian dollar both on account of foreign investment outflows and because the foreign interest payments required to service the debt would exceed the dividend payment which the Canadianized companies would have made. I estimated that, if takeovers had continued at the rate of early 1981, there would have to be either a long-term decline in the value of the Canadian dollar by U.S.$0.05 or a continuing positive differential of 200 basis points between Canadian and U.S. short term rates. To restore the balance of payments to equilibrium and to pay for the acquisitions up to July 1981 would have required a reduction in Canadian consumption of $875 mn p.a. for the next decade.

These figures do not take into account other costs such as the souring of the investment climate in Canada, the Canadian Ownership Charge borne by oil and natural gas consumers, or changes in the financial conditions of the acquiring firms.

The acquiring companies have become saddled with large debts at high interest rates at a time when their net incomes were dropping. Statistics (Statistics Canada, Industrial Corporations' Financial Statistics and company annual reports) show that in 1980-1981 return on equity, return on capital employed and the ratio of short-term assets to short-term liabilities declined significantly, while the ratio of long-term debt to shareholders' equity increased significantly among the acquiring industries, compared to both other petroleum industries and industry in general. Recent statistics from the Petroleum Monitor-

ing Agency show major losses on the part of Canadian acquiring firms in 1982. The credit worthiness of many of these firms is poor. They have become so highly leveraged that further declines in earnings could imperil continued operation.

Yet, in the view of some critics, Canadianization policy promotes this trend. It discourages domestic firms from tapping foreign capital markets for new equity, since this would lower their Canadian ownership status, making them less eligible for generous PIP grants. Consequently, because the domestic capital market has a limited capacity to absorb large equity or debt issues, these firms are encouraged to opt for bank loans.

## 6. The Canada Lands

These territories include the Northwest Territories, Yukon, the areas off Canada's coastlines and various other small parcels of land. The Federal Government's claim to jurisdiction over some of them was earlier challenged by Nova Scotia and is still being disputed by Newfoundland, delaying development of the fields.

The NEP includes a major overhaul of the regulations involving the management of these territories:

i. The Crown is to have a 25% carried interest in every right on the Canada Lands, to be converted into a working interest at any time prior to the authorization of commercial production.

ii. More vigorous efforts are to be expended toward exploration and development of these lands under contracts signed between the Federal Government and petroleum exploration firms.

iii. A minimum of 50% Canadian ownership is to be required for any production from the lands. If a licence fails to meet this requirement, it is to be renewed reserving to the Government a share equal to the difference between 50% and the licensee's actual COR.

iv. To encourage the use of Canadian goods and services, applicants for both exploration and production permits must show that their activities provide industrial and employment benefits for Canadians.

v. To ensure that Canada receives a "fair" share of the economic rent, licensees are required to pay to the Crown a progressive incremental royalty equal to 40% of net operating profit in excess of a 25% threshold rate

of return. This is in addition to the basic royalty of 10% of all the oil and gas produced from the lands under licence.

## 7. The Newfoundland Offshore Oil Dispute

For about fifteen years what has often seemed like an irreconcilable dispute has existed between the Federal and Newfoundland Governments over the control of offshore oil resources. The conflict intensified in the wake of the recent discovery of an estimated 1.2 bn barrels of recoverable oil by Mobil at the Hibernia field in the Grand Banks.

In January 1983 the two governments appeared to reach a broad agreement on management and revenue sharing, but not on ownership of the resource. Nevertheless, the agreement quickly collapsed as a result of differences in interpretation over what was said at meetings.

It now appears likely that the problem will be settled ultimately only through the courts. Shortly after the collapse of the talks the Newfoundland Supreme Court ruled unanimously in favour of the Federal Government. A similar action is pending before the Supreme Court of Canada.

Evidently, the Federal Government feels confident that it can win its case in the Supreme Court, for in July 1983 it announced the conclusion of agreements worth $1.2 bn altogether with Mobil Oil of Canada, Petro-Canada and others for exploration off the coast of Newfoundland.

Once the jurisdiction conflict is resolved, an energy pricing and revenue sharing agreement will remain to be reached. Given the uncertainties surrounding the future course of world oil prices and the development costs of this field, this could be quite a lengthy process. Final decisions concerning important technical questions -the nature of production platforms and the method of transport for the crude oil- remain to be made as well. A shortage of equipment suitable for the conditions of this area is also likely to hamper development.

## 8. The Arctic Fields

To date, no commercial-scale discoveries have yet been made in the Beaufort Sea area. Because of the unfavourable environmental conditions and great distances from markets, the production costs of any fields in this area would be so

high that only a very large volume of oil would be commercially viable. 1982 drilling results show that the Tarsiut field contains about 350 mn barrels. On the scale of fields in the rest of the country this is quite impressive, but it is estimated that between 500-1000 mn barrels would be required to be commercially viable. Only if another field of similar size is discovered nearby would the country be able to take advantage of Tarsiut.

Nevertheless, some predict that the search for oil in this region of the country will be intensive over the next few years, pending possible changes in the generous PIP grants currently available to explorers. In 1982, exploration expenditures increased by more than 50% over the previous year.

While the international majors still control much of the exploration activity, dozens of smaller companies have joined in recently through farm-in arrangements.

## 9. Heavy Oils

Canada has huge reserves of largely untapped tar sands and heavy oils, in northern Alberta and the Cold Lake and Lloydminster areas along the Alberta/Saskatchewan border. During the mid-1970s concern about Canada's growing dependence on foreign oil prompted increased interest in the possibility of developing these deposits.

The tar sands may be the world's largest single petroleum deposits, estimated by some to be able to yield more than 1 trillion barrels of synthetic crude. Processing, both expensive and damaging to the environment, requires separation of these materials and upgrading of the oil.

Lloydminster oil can be recovered by conventional methods, but production has been rather limited because of the low efficiency of such recovery, high production costs, poor transportability, and unsuitable products.

Cold Lake oil, estimated to be able to yield as much as 5 bn cubic metres, is more viscous and is similar to the bitumen in the Alberta oil sands. Conventional production methods are not practical in these deposits.

The Syncrude and Suncor plants initiated the commercial mining of the tar sands for refining in the East. Operating problems, particularly during difficult weather, have made it hard to maintain production anywhere near rated capacity. However, performance has recently improved considerably and the combined production total for the two

plants in 1982 was about 117,500 b/d, double that of the previous year.

In recent years there had been a couple of major new projects under consideration for the development of extra heavy oil and the tar sands. Cold Lake and Alsands (Fort McMurray), as they were known, were expected to eventually produce about 140,000 b/d. Up until 1981 they experienced a steep rise in costs, including those of drilling, capital goods, technical and professional manpower, and interest rates. However, there was optimism for these projects, given the expected long-term trend of rising oil prices. The euphoria dissipated in 1982, in the wake of downward revisions in the expectations for domestic oil consumption, producer prices and industry cash flow. As a consequence, in May 1982 the $13 bn Alsands project was cancelled, despite favourable financing and tax proposals from the Alberta and Federal Governments. This came only a few months after the postponing for an indefinite duration of the $12 bn Cold Lake heavy oil recovery project.

Yet, there are currently some signs of revival in this field. Companies are emerging from the psychological shock of having to adjust to the NEP, the recession and the decline in the oil market. Lately, there has been a deceleration in cost increases and improved profitability of oil production. Recent concessions offered by both the Federal and Alberta Governments are seen as signs of a renewed interest in the development of oil sands and heavy oil reserves. In 1983, it appears that companies are concentrating on planning smaller-scale investments than the earlier multi-billion dollar megaprojects.

In July 1983, after being offered financial concessions by the Alberta Government, Syncrude announced plans to undertake a $1.2 bn expansion plan at its Fort McMurray plant. Production in the next five years is to increase about 20%, from a current 106,800 b/d to 128,800 b/d.

BP Exploration is to proceed with construction of a $200 mn oil sands project at Wolf Lake, Alberta. The project is to produce about 7,000 b/d.

In August 1983, Esso Resources Canada Ltd. received permission from the Alberta Energy Resources Conservation Board to begin phased development of its reserves at Cold Lake. In this downscaled version of its old Cold Lake megaproject, an initial investment of $300 mn would result in production of 18,800 b/d of heavy oil. Upgrading

facilities would be added upon improvement of market conditions.

In the same month plans were announced to build a $600 mn heavy oil upgrading plant at the Consumer's Cooperative refinery in Regina. The plant will have a capacity of 50,000 b/d and will upgrade heavy oil by mixing it with light and medium crudes. It is expected to be operating in 1987.

At the time of writing, a decision on a $1.6 bn upgrading complex at Lloydminster was still pending. The project, proposed by Husky Oil Ltd. of Calgary, would be capable of producing about 60,000 b/d of upgraded oil. The plans to build the upgrader at Regina lessen the chances that this project will proceed in the foreseeable future, since it does not appear that the Federal Government will support a second upgrading plant in the province.

Prices for conventional heavy oil are determined in the same manner as for light oils, i.e. wells developed before March 31, 1974 receive the old oil price, while those developed after this date receive the new oil price. Enhanced recovery projects, experimental projects, and synthetic oils receive the new oil price.

One issue currently impeding further progress in heavy oil development is the differential between domestic light and heavy oil prices, which is seen as too small to cover the cost of upgrading.

## 10. The Economic State of the Industry

1982 was another bad year in the Canadian petroleum industry. According to the Petroleum Monitoring Agency, total revenues rose only 9.0%, in contrast to the previous three years which saw average annual increases of more than 20%. Net income from all operations, which in 1981 had declined by 31% (from 4.5 bn to $3.1 bn), in 1982 declined 52% to $1.5 bn.

Because of the recession-induced decline in consumer demand, the downstream sector was particularly hard hit. Yet, higher prices and lower taxes and royalties for oil and natural gas enabled exploration and development activities to increase revenues and net income from these activities by 21% to $20 bn and $2 bn, respectively.

The worst hit were Canadian firms engaged in the takeover of foreign assets. According to the Petroleum Moni-

toring Agency, these firms in 1982 recorded losses of some $600 mn, in comparison to profits of $500 mn the previous year. They accounted for the bulk of the profit declines experienced in the industry in the past year. Foreign firms showed an overall profit decline of 19%. Canadian firms not engaged in takeovers (and therefore also able to avoid high interest rates) did best, having shown a decline of only 14%. Their relatively favourable performance was in part due to an absence of downstream major operations.

These statistics would appear to support those who contend that the policy of buying back the Canadian petroleum industry was undertaken at an inopportune time, i.e. when prices and demand for oil were falling and interest rates were still high.

The problems of Canadian firms engaged in takeovers were dramatized in 1982 by the case of Dome Petroleum, one of the major players in the field. Its most celebrated acquisition was the $2 bn Hudson's Bay Oil and Gas Company. This purchase was advertised by the government as proof of the success of the NEP. At the time few saw that the steep rise in interest rates and decline in international oil prices, along with the NEP's higher taxation, would cripple Dome's cash flow. Eventually, the firm's debts went out of control. The result was that in mid-1982 a $1 bn salvage plan by the Government, in cooperation with four major Canadian banks, had to be worked out to save Dome from bankruptcy and the Government itself from an acute embarrassment. The operation would result in the Government acquiring a large degree of control over the company, effectively rendering it a ward of the state. Through Dome alone, Ottawa could eventually acquire a say in as much as 20% of Canada's oil plays, including the Beaufort Sea Area.

The petroleum industry is quite critical of the Federal Government's policy and feels discriminated against. Yet, the same Petroleum Monitoring Agency Report reveals that, while the industry's net income on Canadian operations fell by 28% in 1981-1982, net income in all other non-financial industries in Canada fell by 49%. Petroleum's share of profits relative to all other non-financial industries -47%- was a record.

Financial resylts for first-half 1983, in most cases, have been better than for the same period in 1982. Consumption of gasoline is up 2.2% over the same period last year. Demand for petroleum products overall is up 5.6%.

The major integrated oil companies are all showing an

improvement in downstream financial performance. Imperial Oil's net earnings thus far are $133 mn, up $2 mn from the same period last year; Gulf's net earnings are up 10% to $125 mn; Texaco's are up 9% to $151 mn; Suncor's are up to $41 mn from $16.3 mn. Only Shell has seen its earnings drop -$73 mn to $39 mn- because of expenditures for the construction of a refinery.

Although in the past two years the main contributors to industry earnings have been upstream activities, in the coming eighteen months, at least, the proportional contribution from downstream activities is likely to rise. This is because the June 30 Ottawa-Alberta Agreement aims to freeze wellhead prices until the end of 1984, resulting in a levelling off of upstream earnings, although this could be more than offset by the new agreement's provision allowing a greater proportion of oil to receive the new oil price. At the same time expectations of rising consumer demand as the economic situation improves portend well for downstream operations.

Good performance in downstream operations could be followed in 1985 by a growing contribution from the small-scale, heavy oil projects undertaken recently, in the wake of the demise of the megaprojects.

## 11. Reaction to the National Energy Programme

The NEP has been called "the most significant attempt ever made to assert Canadian sovereignty over a foreign-controlled economy, the crowning glory of the Trudeau liberals' fourteen year regime. Or, the NEP is the most destructive, inept, mistaken policy ever hatched by those scheming interventionists in Ottawa who have succeeded only in driving up the price of gas and driving out businessmen and their money." (Judy Steed in the Globe and Mail, March 19, 1983.) These two statements aptly summarize the views of proponents and opponents of the highly controversial NEP.

There has never been much disagreement over the programme's fundamental goals: only the means of achieving them.

### a. In Favour

Proponents have praised the NEP as a bold initiative to-

ward an industrial strategy for Canada and an assertion of Canadian economic rights. Canadianization has been seen as halting the drain of national wealth to foreign head offices and permitting more profits to be retained at home as well as jobs in high technology, research and development areas.

The NEP appears to have substantial support among consumers who have benefited from petroleum prices markedly below international levels.

Yet while supporting the political objectives of the NEP, strongly nationalistic critics such as among the New Democratic Party have argued that the government was not going far enough and was being too timid in aiming for only 50% Canadian ownership by the end of the decade.

b. Against

Criticism has come from a great variety of other sources including the U.S. Government, provincial governments, the petroleum industry, financial commentators and other representatives of the private sector, and most recently, the International Energy Agency.

The U.S. Government. The Americans have objected to it on the grounds that it interferes with the workings of the free market and is apt to discourage foreign investment in Canada in other areas. They perceive Canadian companies as now having the right to "raid" American-owned firms, while the latter are debilitated by the restrictions of FIRA. Both the Carter and Reagan administrations have expressed concern over the retroactive Federal Government carried interest provision -25%- which was seen as a form of expropriation. (To appease these concerns, the Government is proposing compensation when the carried interest provision has been exercised, and it is giving assurance that this kind of legislation will not be extended to other sectors of the economy). There has also been indignation over the easy financing arrangements available to Canadians in their takeovers.

The Producing Provinces. In the original draft of the NEP the Government avoided a direct export tax on gas, which was strongly opposed by the producing provinces. Yet the new excise and income taxes on oil and gas have proven no less unpopular with Alberta, Saskatchewan and British Columbia. These were seen as yet another at-

tempt by the Federal Government to increase its power and revenue at the expense of the provinces, particularly the West. The proposed oil and gas price schedules were considerably below those demanded by the producing provinces. Further, as noted already, the PIP grants favouring exploration and development on the Canada Lands are seen as serving to discourage these activities on provincial lands.

Alberta's opposition to the NEP has already been noted. In response to the initial set of policies, it started cutting back oil production by 15% beginning in March 1981 and holding oil sands and heavy oil projects in abeyance until agreement was reached with Ottawa. Such policies if maintained would have seriously threatened the viability of the NEP.

Industry. Although industry had reacted from the beginning with strong disapproval of the original NEP as a blatant and unwarranted intervention in the market, reaction to the EPTA required some time because it was both complex and lacking in detail. The very fact that the two parties were finally able to come to some sort of long term agreement, nevertheless, had a positive effect on the proponents of the NEP as well as on the Canadian business community. However, once industry observers had a chance to examine the possible effects of the agreement, the reaction cooled somewhat. Writing in the Financial Post (September 9, 1981) Robert D. Brown and Robert B. Parsons of Price Waterhouse Chartered Accountants commented:

> ... the oil industry itself has a growing suspicion that it has been left out of the winners' circle. Though it has been frantically pushing its pencils since the agreement was announced, the industry still seems confused as to what the program really means. The best guess at this point is that there will be very little benefit, if any, to producers in the next two years, and indeed, some of them may even suffer reductions in their netbacks on "old" oil from the depressed levels imposed under the NEP. The precise numbers depend on the details of the agreement, which, at the moment, seem foggy in several areas.

These sentiments were echoed by both the Canadian Pe-

troleum Association and the Independent Petroleum Association of Canada. Industry felt that the higher prices allowed by the agreement were more than offset by the higher taxes and royalties which it entailed. Natural gas producers, who were already facing a severe shut-in problem, were especially concerned. M. Lalonde's claim that "industry gets the money it needs to get on with the job" was widely rejected.

Reaction to the June 30, 1983 revision of the EPTA has been mixed. Although industry spokesmen were generally pleased that the two parties had reached agreement, most still insist on the deregulation of prices as the most effective solution for the industry. There appears to be little optimism at this time about a major upturn in the industry and a new raft of projects.

Private industry has criticized the NEP on several other grounds. In its view, it was formulated unilaterally without adequate consultation with either the industry or the provincial governments. It was felt that the depressing effect that the new taxes and the withdrawal of incentives would have on netbacks would mean a decline of oil and gas exploration and development efforts. As noted earlier, the PIP was perceived to have a tendency to distort investment decisions.

Although there has been a marked decline in exploration and development efforts since the NEP was announced, it is not easy to determine if the NEP is largely responsible for this, as some critics would contend, or if the general recession and the international slump in the petroleum industry in particular are more to blame.

Companies interested in exploring federal lands have been critical of the retroactive changes in regulations resulting in a 25% Federal Government share in discoveries on such lands. The Government tried to placate its critics on this issue in May 1981 by announcing that the Federal back-in to the Canada lands would be accompanied by some compensation to the companies for exploration costs. Many in the industry saw it as a step in the right direction but not sufficient.

So strong has been the industry's opposition to the NEP that Mr. H. Earle Joudrie, President of the Independent Petroleum Association of Canada, warned in an interview in the Globe and Mail on January 15, 1981 that "Canada's opportunity for oil self-sufficiency is being kicked out of the window, or at least into the next century." He added that the NEP could turn out to be one of the costliest blunders that the Canadian government

has ever committed.

Royal Bank Chairman, Mr. Roland Frazee, in speaking to the bank's annual meeting in the same month argued:

> It seems abundantly clear by now that it [the NEP] is so seriously flawed as to be a non-starter which should be withdrawn and reconsidered. And in that reconsideration, let all of the key players have reasonable input! We need consensus in energy policy, not tablets from the mount.

The Government has also been criticized for trying to keep domestic energy prices at an artificially low level which may lessen incentives to engage in conservation. It is seen as paying out large amounts to subsidize the cost of imported oil while at the same time spending large sums for programs designed to overcome the wasteful use of energy that oil subsidies encourage. The problem is summarized succinctly in the claim that Canadians have the lowest energy prices outside of the OPEC countries and the highest per capita consumption of energy.

The NEP has been charged with adding to the atmosphere of uncertainty which the petroleum industry in Canada feels it has been functioning under for a number of years. There is an impression that the rules of the game have been changed too often. There is a lack of clear and detailed rules under the NEP. The huge volume of changes it seeks seem rather complex and confusing. The federal/provincial wrangles also contribute to the uncertainty.

The International Energy Agency. Recently, even the International Energy Agency, to which Canada belongs, has criticized the NEP. It describes the policy as being too complex and attempting to serve too many different economic and political goals.

The agency praises Canada for its incentives to promote conservation and fuel switching, but at the same time urges that:

i. Canada should adopt world prices for all domestic oil and reduce regulations governing natural gas once the current federal-provincial agreements expire in 1986.

ii. A more flexible oil taxation regime should be established allowing producers to have a threshold rate of return on investments before taxes. The current five tier tax and royalty system should be replaced with a single tier, excluding corporate income.

iii. The Canadian ownership programme should be monitored so that it does not give "inappropriate signals" to Canadian or foreign oil and gas companies, as industry conditions vary over time.

iv. More taxes and charges should be imposed on vehicles and gasoline so as to promote increased oil conservation in the transport sector.

All the same, despite the critics, the NEP appears to have remained popular among the public. As Harvie Andre, the Conservative energy critic from Calgary concedes, "It's been a disaster from day one except as a public relations adventure... the NEP is a successful policy. The people like it. Who doesn't support Canadianization?" (Globe and Mail, March 19, 1983.)

## D. NATURAL GAS

### 1. Overview

Natural gas plays an important role in the energy makeup of Canada. It provides a rich source of export earnings and contributes to economic activity in the country, especially in the Western provinces. More recently it has gained significance because of the important role it plays in the Federal Government's National Energy Programme. As Canada is well endowed with natural gas, it is being touted as the most economical substitute for oil.

### 2. Gas and the National Energy Programme

One of the main objectives of the NEP is to see Canada move away from its dependence on oil. Government policy is to develop a strong domestic market for natural gas and to reduce -but not cut off- demand on Canadian oil reserves. To achieve this end, this Government has initiated a number of programmes designed primarily to develop new markets both within and outside Canada.

### 3. Pricing

Pricing is a very contentious issue both with respect to

the domestic and export market. The NEP specifies that pricing policy is to meet two needs: it must provide a) adequate incentive to production, and b) strong encouragement for consumers to use natural gas in preference to oil.

a. Gas Pricing and the New Ottawa/Alberta Energy Agreement

The new gas pricing system is very much like the system it replaced where the producer price was established after deducting transportation and other costs from the Toronto wholesale price.

The agreement guarantees that natural gas prices will not rise above 65% of the price of oil no matter what happens to oil prices, at least until 1985. The aim is to continue providing consumers with an incentive to switch off oil. Alberta gas producers, however, will receive the next scheduled increase in the Alberta border price - $0.25/Mcf, and part of the increase scheduled for 1984. This means the domestic price for gas rose to about $2.83/Mcf on August 1, 1983.

The Government has kept the price of Alberta's gas in eastern Canada at 65% of the price of crude oil over the past three years. The result has been that more than 165,000 households have converted to natural gas up to December 1982. Natural gas is now the most used heating fuel in Canada, serving more than 3.4 mn homes - 41% of all Canadian residences. Notwithstanding the effects of economic slowdown and conservation efforts, gas consumption in Canada in 1982 rose by about 3% over 1981. Furthermore, it is estimated that Canadians consume more than 128 mn cubic metres of natural gas per day.

It is clear that keeping the price of gas at its present level when the price of oil is lower than expected, could cost both Governments dearly. The Federal Government has just announced (July 28, 1983) than the NGGLT will be reduced to $0.14/Mcf from $0.43/Mcf on gas sold in Canada. The tax was reduced last February by $0.17/Mcf and it is expected that there will be an even larger reduction in August. Under the new agreement the Federal Government will reduce the NGGLT to zero over time if necessary. The reduction in the tax is intended to leave room for higher pipeline rates without price increases to final consumers. In this way the Government can fulfill one of its aims in the new agreement, which is to help increase revenues for gas producers. Once the NGGLT is reduced to zero, the Alberta Border price of gas will be adjusted to maintain the 65% gas/oil price ratio.

4. Natural Gas Incentive Programmes

Because industrial consumers seem to prefer investing in manufacturing equipment rather than fuel conversion, and because residual fuel oils -especially in eastern Canada- are competitive with natural gas, the rate of expansion of natural gas sales in the industrial market has not been rapid. In its NEP update the Government has outlined several initiatives to be taken in order to rectify this situation:

i. The Government of Canada is meeting 50% of the cost of converting to natural gas for industrial, commercial and private institutions that are currently using residual fuel oil and that do not have dual firing capability. This is done under the Industrial Conversion Assistance Program.

ii. Imports of residual fuel oil will require a licence from the NEB. As well, applications for imports for consumption in areas served by natural gas will be judged against the Government policy to discourage such imports.

iii. Exports of heavy fuel oil will be facilitated to help clear the market for natural gas.

The Government has also implemented a number of other programmes to make gas more attractive:

i. Laterals Programme: The Federal Government is expanding the "untapped" market of Quebec by constructing pipelines throughout the province.

ii. Gas Marketing Assistance Programme: This is intended to minimize gas contracting risks for Quebec distributors.

iii. Distribution System Expansion Programme: This programme will help distributors finance expansion of their pipeline network.

iv. Canada Oil Substitution Programme: This will provide funds for consumers to convert off oil.

v. A recent programme intended to promote the use of Canadian natural gas in motor vehicles in the form of grants to service station operators and motorists, and

vi. Natural Gas and Gas Liquids Tax (NGGLT): This is designed to keep prices in new eastern Canadian gas markets at approximately 65% of crude oil.

5. Natural Gas Exports

Cumulative additions to natural gas reserves 1976-1980

have been 30 tcf, while cumulative production has been 12 tcf. This means that, after having spent substantial sums of money on gas exploration and development, producing companies are unable to realize a return on their investment because of limited markets. As a result, exploration has fallen off in the last two years. There are believed to be more than 10,000 gas wells shut-in at present.

To help reduce this surplus, the Canadian Government has been trying to promote exports of natural gas to the U.S., by far Canada's largest gas market, as well as to Japan and some West European countries.

The National Energy Board is responsible for making periodic assessments of the amount of gas that is surplus to reasonably foreseeable domestic requirements. After year-long hearings set up to examine applications relating primarily to pipeline supplies for delivery to the U.S., the NEB recommended in January 1983 that Canada double the currently authorized volume of gas available for export.

a. Gas Exports to the U.S.

Canada supplies 90% of all U.S. gas imports, which is about 14% of total U.S. gas demand. The remaining 10% come from Algeria and Mexico. In some regional markets, for example California and the Pacific Northwest, the proportion of total supply is much higher. Gas export sales reached more than $4.8 bn in 1982 making it one of Canada's most important trade commodities.

Despite the NEB recommendation that sales be increased, the sale of Canadian gas is strained by the weak market in the U.S. Demand for natural gas in the U.S. has been reduced as a result of the economic recession, conservation, and alternate fuel substitution. The fact that a surplus has developed in the U.S. has meant that Canadian sales to that country were less than half of the levels authorized under existing contracts in 1982. Canadian exporters delivered only 30% of authorized volumes in the first six months of 1983, a record low.

American buyers, the U.S. Administration and Congress have been demanding Canadian producers employ a more market-oriented price system. The domestic price of gas in the U.S. is $1 to $2/tcf lower than Canadian exports, and in some cases even as much as half the Canadian price. As a result, U.S. companies have been cutting back on the volume of gas imported from Canada, including the use of <u>force majeure</u> to break contract commitments.

Algeria has been experiencing similar pricing problems with the U.S. The Trunkline deal in particular, designed for the purchase of 4.5 bn cubic metres of Algerian LNG annually over a 20-year period, is experiencing problems from the Economic Regulatory Administration (ERA) and the Federal Energy Regulatory Committee (FERC). They object to the high landed cost of Algerian gas in the U.S. which raises the FOB price from $3.30/mn Btu to a CIF price of $6.39/mn Btu. This puts the price of Algerian gas considerably higher than Canada's.

Export Pricing Formula. Canadian gas exports to the U.S. are presently sold according to the Duncan-Lalonde pricing formula. Under this accord, the NEB sends a recommendation to the Canadian Ministry of Energy at the beginning of each month outlining what it calculates to be the substitution value of oil. This sum is based on the average FOB price of crude oils imported into Canada over the previous three months, plus a transportation adjustment factor. Depending on market conditions in the U.S., the Ministry can modify the recommendation as it sees fit. However, the Government's overall policy is to maintain the price of gas exports such that they reflect the value of a non-renewable resource. The formula was originally requested by the United States as protection against sharply rising prices. But now the United States criticizes the formula as being too inflexible given weak American markets.

Canadian Response. In response to American demands, the Canadian Government initiated a consultative process with the gas exporting provinces and the industry to examine ways to preserve Canada's share of the U.S. market. A number of options were proposed:

i. Canada could move toward a more market-sensitive gas export regime by adjusting the present take-or-pay commitments. Currently most export contracts require that U.S. buyers take 75% of their annual volumes or else be obliged to pay the short-fall.

ii. The price could vary according to the distance from producer to market. This would mean the export price would be lower in the western U.S. than in the Northeast where there is still a demand for Canadian gas.

iii. Discounts for volumes sold above a certain level could be provided.

The VRIP. The general outcome of these consultations was that an interim export pricing policy was seen as necessary

pending clarification of the U.S. market environment. Consequently in April 1983 the uniform border price set in April 1982 was reduced from U.S.$4.60/gj (U.S.$4.94/MMBtu) to U.S.$4.10/gj (U.S.$4.40/MMBtu). The price reduction was based on the drop in world oil prices which are used as the basis for calculating the gas export price.

Once again trying to placate U.S. demands for a price reduction, the Minister for Energy, Jean Chretien, announced a Volume Related Incentive Pricing (VRIP) Program in July 1983. Under this program Canadian exporters will be able to sell gas in excess of an established base level at an incentive price of U.S.$3.17/gj (U.S.$3.40/Btu). Base volumes of gas exported will continue to be sold at the uniform border price.

The price is approximately equivalent to the wholesale domestic gas price paid at Toronto by Canadian distributors. In no case will it be prescribed at a level lower than the wholesale price of natural gas at the Toronto City Gate, inclusive of the Canadian Ownership Special Charge and the NGGLT.

The programme period will be set on an annual basis from November 1 to October 31. The entire programme period will thus be from the date of implementation to October 31, 1984, and will be organized into two separate yearly programmes. In the second year of the programme, it is expected that the Government will be more flexible in its policy concerning gas pricing by leaving more room for companies to propose pricing arrangements satisfactory to U.S. and Canadian regulatory authorities. Canadian officials are also hoping that when the incentive programme expires the turmoil in the U.S. market will have ended and that the market there will be in a more healthy position to buy large supplies of Canadian gas.

Most analysts view Canada's latest actions as only a token political gesture and do not expect they will have any significant impact on the volume of gas exports. For the short term, there is little indication that the Canadian Government will reduce the export price further, despite strong urgings from U.S. officials. The problem of gas import prices is complicated by uncertainty in Congress about U.S. domestic gas pricing, specifically the threat of deregulation. But probably the biggest reason why Canada will not reduce natural gas prices again is because they are already approaching the level of Canadian domestic prices. It would be politically unacceptable for the Government to sell Canadian gas across the border at a lower rate than in Canada.

Pre-build. Canadian/American energy relations have been further complicated by construction of the Alaska Highway "Pre-build" facility. This pipeline was designed and constructed to ultimately connect with pipelines from Alaska's Prudhoe Bay and Canada's McKenzie Delta-Beaufort Sea. It became fully operational in late 1982, and gas is now delivered to the U.S. mid-west market through the east leg. Canada and the U.S. had reached a firm understanding regarding both the Pre-build and the northern sections of the Alaska Highway Pipeline; but because the U.S. market is no longer experiencing supply deficiencies as it was when the project was negotiated, the U.S. has not constructed the northern section as yet. Moreover, the U.S. Government Accounting Office said (July 1983) that the Alaska Natural Gas Transportation system is probably too costly to be financed solely by private institutions as specified in the existing legislation. Construction has been deferred and the contract is to be renegotiated. Needless to say, American unwillingness to follow through on its share of the deal has remained a sore point in Canada-U.S. relations.

b. Non-U.S. Gas Exports

Japan. In its Gas Omnibus Export Hearings the NEB recommended that Dome Petroleum be allowed to export 2.3 tcf (2.4 exajoules) of LNG to Japan. This would be the first time Canadian gas would be exported to Japan, although Canada has been selling the country propane for a number of years. It represents an attempt by the Canadian Government to diversify its markets away from the U.S.

In March 1983 Dome stated that it intends to proceed with the $4 bn project despite falling energy prices and reports of Japanese unwillingness to guarantee financing. The project is scheduled to begin construction this fall, with deliveries of gas to five Japanese utilities planned for 1986 under 20-year contracts. However, the NEB agreed in July 1983 to postpone hearings on Dome's export venture to 17 October 1983.

Europe. Another major preoccupation with the Canadian Government is the Arctic Pilot Project, a $2.5 bn venture to export Canada's frontier natural gas. The project calls for natural gas to be drilled at the Drake Point field on Melville Island, NWT, and liquefied in barge-mounted installations at Bridport Inlet before being load-

ed onto two giant LNG supertankers.

The proposal is to export 317 mn $ft^3$/day from the high Arctic by tanker for delivery by the early 1990s. Most potential U.S., West German, or French buyers would not need it until then. Since it would only take about four years to build the ships and plants required to begin production, work would probably not have to start until 1986.

Hearings were adjourned last August by the NEB until the project sponsors, including Nova, Dome Petroleum, Petro-Canada and Melville Shipping of Montreal, were ready with a definitive marketing proposal. The heavy glut of natural gas and falling prices have not yet made the project economically attractive. To provide an adequate return, the project would require a Canadian price of about $5 per 28 cubic metres, almost a dollar higher than the current export price to the U.S. market.

The initial plan was to sell the gas by displacement to the U.S., but the sponsors then initiated talks with potential buyers in France (Gaz de France) and West Germany (Ruhrgas AG, Gelsenberg AG). The most recent proposal involves the purchase of 7.08 mn cubic metres/day by the British. That sum represents about 8% of current Canadian consumption. However, no agreement is expected to be signed before the end of 1983.

## E. COAL

As in most other countries, coal rapidly declined in importance in the first three decades following the Second World War. It could not compete with cheap, relatively clean and convenient oil. However, following the major oil price hikes of the seventies, attention turned once again to coal. For a number of years demand for Canadian coal has been rising, and prospects for the industry look favourable for the first time in decades. Production has steadily risen from 20.5 mn metric tons in 1973 to 42.7 mn tons in 1982. A gradual rise in the industry's income and employment level has paralleled this trend.

### 1. Supply and Demand

Canada has sizeable economically minable reserves, including about 5.6 bn metric tons of bituminous coal, 7.3 bn tons of sub-bituminous coal and 3.2 bn tons of lignite. The small deposits of anthracite found in Canada are not economic to mine.

The three most westerly provinces produce about 97% of national output (Alberta alone produces nearly 50%). Nova Scotia produces most of the remaining 3%.

Strip-mining is the predominant method of coal extraction in all provinces, except Nova Scotia where underground shafts are used because of the depth of deposits. Production costs in the Prairies compare favourably with elsewhere in the world.

In 1980 coal supplied just under 10% of Canadian primary energy consumption. Coal consumption is particularly high in the two coal producing provinces -Saskatchewan (21.5%) and Alberta (15%)- and in Ontario (16%).

The World Coal Study suggested that in 2000 coal will represent about 16-20% of Canada's primary energy consumption, compared with about 10% in 1980. This implies that, together with projected export increases, production levels will increase by three to fivefold. However, at the present time, the future of Canada's coal industry seems uncertain. Despite recent gradual increases in production, the predicted surge in demand is yet to materialize. This appears mainly due to the effects of the recent recession which has dampened demand for all forms of energy as well as the expectation of lower oil prices in the coming years. Persistent concern about the link between sulphur dioxide emissions and acid rain and other environmental and health problems resulting from coal use may also be helping to depress demand. Even if these factors should reverse themselves Canadian coal can expect strong competition from American, Australian and South American suppliers in world coal markets.

About 75% of Canadian coal demand is for electrical generation. The remainder is for metallurgical use. Coal is used in about 15% of national electricity production. Its use is particularly high in Saskatchewan and Alberta, where coal-fired stations generate about two-thirds of their electricity.

## 2. Trade

In 1980 42% of national coal production was exported. Japan is by far the largest customer. About 90% of coal exports are for metallurgical purposes.

Nevertheless, Canada has traditionally been a net coal importer. This is because reserves are located at the extremes of the country, far from the major population centres and therefore have in the past been uneconomic to transport to the central provinces. Consequently, a large proportion of the thermal coal mined in Canada is burnt at power stations nearby. Ontario, the largest coal user in the country, continues to import most of the high quality thermal and metallurgical coal which it requires from Pennsylvania, which is considerably closer than Nova Scotia or Alberta. In recent years the province has made greater use of Western coals. This was encouraged first by Federal Government assistance to the coal industry and later by improvements to the transportation network.

Coal bound for export is taken from the mines of Alberta and British Columbia by special trains to the Robert's Bank coal port for loading into ships.

In order to accommodate expected increases in foreign coal purchases, the Government has announced plans for a large expansion in the capacity of the Robert's Bank coal port. A new port is also planned for Rudley Island near Prince Rupert. Railways in northern British Columbia are expected to be extended or upgraded. New mines scheduled to be opened up in this area are expected to require investments of about $3 bn, making them among the largest investments ever undertaken in this commodity.

## 3. Coal and the NEP

In the NEP the Government has committed itself to a policy of speeding up development of the Atlantic region's coal resources, in order to reduce the region's heavy dependency on oil. About $150 mn has been set aside for investment in the commercialization of new, environmentally-acceptable technology for the use of coal in this region.

The development of Fluidized Bed Combustion (FBC) should encourage a shift toward coal. An experimental FBC project is planned for an armed forces base in Prince

Edward Island. Eventually a utility scale plant is expected to be built in Cape Breton. B.C. Hydro is examining the possibilities of the next technological stage of pressurized FBC for the large Hat Creek coal deposit.

It is not expected that processes converting coal into natural gas and liquid fuels will be practical for many years yet in Canada, despite availability of easily mined, low rank coals near the oil sands and heavy oil deposits.

## F. ELECTRICITY

Overall, about 36% of the energy consumed in Canada is in the form of electricity. Electrical power in Canada is highly developed. Canada's water resources have historically permitted the construction of numerous, major hydro-electric power plants, which have supplied abundant, cheap electricity. As well, the country has large numbers of fossil fuel (about 60% coal, 40% petroleum) generating plants.

### 1. Supply and Demand

In the past decade it has been Federal Government policy to encourage a shift from oil to other types of energy including electricity. Nevertheless, growth rates for electric power demand have declined in recent years. In the quarter century preceding the first major oil price hikes of 1973, electricity demand growth had averaged 6-7% p.a. Since then, growth has declined to about 4% p.a. Higher oil prices prompted a reduction in economic growth. This reduced the demand for all forms of energy. A slower rate of population growth, greater concern about energy efficiency and increases in the real price of electricity have also helped to slow demand.

Official predictions do not expect demand growth in the remainder of the century to exceed the past decade's level. It may even average as low as 3.5% p.a., despite expected moderate price rises for the remainder of the decade. At the present time there is a problem of excess capacity in many areas because construction in the

early 1970s was based on the assumption of continuing rapid demand growth.

Presently 69% of electricity produced in Canada is from hydro sources, 22% is from fossil fuels (coal, oil and natural gas, respectively) and the remaining 9% is supplied through nuclear generation. However, there are important regional differences in production. Nova Scotia is heavily dependent on oil for electricity generation. Alberta and Saskatchewan rely on coal. Quebec, British Columbia, Manitoba and Newfoundland produce almost all of their electricity from hydraulic sources. Ontario and New Brunswick have a mixture of the three sources. About one third of planned additions to capacity is nuclear, one-half is hydro-electric and the remainder is thermal.

About 90% of electrical power produced in Canada is through utilities, which are regulated in all provinces. Industrial generation has become steadily less economical in recent decades.

Total production in 1981 was 378 TWh. 91% was consumed domestically. The remainder was exported mostly to north-eastern and northwestern American states. Foreign sales earned Canada $1.1 bn.

Use patterns have been changing in the past quarter century. The industrial sector has been declining in importance as a user, reflecting the relative decline in such electricity-intensive industries as aluminium smelting and pulp and paper. The residential and commercial sectors have increased in importance as a result of increased electrical space heating and cooling and greater urbanization.

## 2. Hydro-electric Generation

Despite Canada's abundant hydro-electric resources, this cheap and clean source of electricity has been declining in relative importance in recent years because many of the more convenient and economical sites in southern Canada have already been developed. Where sites are available such as in the James Bay region of Quebec, development requires long lead times and large amounts of capital.

Today most of Canada's generating stations are components of large, integrated, and frequently interconnected systems run by utilities. Technologies developed in re-

cent years permit users to exploit hydro-electric sites once considered beyond economic transmission distances. For example, a 700 km, 500 kV line brings power from the James Bay watershed to the Montreal area. Quebec also supplies power to New York state on 765 kV lines. A 924 km, 500 kV line carries power from Peace River to the lower mainland of British Columbia.

## 3. Fossil Fuel Generation

While fossil fuel sources supplied only about 22% of Canada's needs in 1980, they accounted for about 36% of installed capacity. Much of this capacity is operated for peak-load duty, while hydro-electric capacity provides base-load generation. Over 90% of all fossil fuel generating equipment in Canada is driven by steam turbines. The remainder consists of gas turbines and internal combustion engines. This source of electricity is expected to gain in relative importance as hydro-electricity possibilities become more and more limited and if skepticism about nuclear generation continues to grow.

## 4. Nuclear Generation

While nuclear energy supplies only 9% of the country's electrical needs, it is the most technologically advanced and most controversial energy source in the country.

### a. Demand

As of 1982, eleven commercial reactors were scheduled to be operating in Canada, all but two of which (in New Brunswick and Quebec) are on three sites in Ontario. Canadian reactors have been ordered by India, Pakistan, Taiwan, Argentina, South Korea, and Romania.

The industry has lately undergone a major swing in demand. As recently as eight years ago there was real hope that the Canadian nuclear industry would be capable of satisfying domestic requirements and export orders simultaneously. Today things are totally different. The economic slowdown has deferred plans for the expansion of the industry. Export orders have declined or even been

cancelled. Major spare capacity now exists in the nuclear industry. In contrast to the period of 1964-1978 when the Canadian nuclear industry was able to sell 24 reactors, 1979-1981 saw no firm, completed orders.

The government concluded in a paper entitled "Nuclear Industry Review: Problems and Prospects 1981-2000" that domestic electricity demand may require new CANDU reactors to come on stream in the mid-to-late 1990s. Alternatives such as coal and hydro are seen to be increasingly costly both in economic and environmental terms, east of Manitoba. This will require the placing of orders in the later 1980s. While there is room for the expansion of nuclear power use in New Brunswick, the market in the Maritimes is on the whole not large enough to support a significant nuclear program. There is little prospect that nuclear energy will be required in the West in this century. Even in Quebec, with its considerable excess hydro-electric capacity, the outlook is uncertain.

In the meantime, with excess capacity being experienced by key utilities such as in Ontario and with reduced forecast rates of electricity demand growth in most provinces having a nuclear program, domestic orders in the 1980s can be expected to be limited. The Government acknowledges that competition in the export market is fierce. Although it has recently sold a reactor to Romania, Mexico and South Korea are seen as quite uncertain at this time.

Such prospects leave open the question of whether the Government should be prepared to sustain the Canadian nuclear industry through a number of years of expected slack or even non-existent demand, or risk its possible demise. It is the Government's position that steps should be taken to preserve the industry. One possible measure would be the pursuit of additional electrical sales to the United States, where a market probably exists. The Government has indicated that it would be willing to support the construction of a Lepreau 2 plant in New Brunswick. Even if the industry can be saved, some consolidation is likely.

b. Safety

The Three Mile Island mishap has increased public awareness of the potential hazards of this energy form. Pub-

lic concern has also focussed on the possible contribution of exported Canadian nuclear technology and materials to the proliferation of nuclear weapons, and to a lesser extent, on the financial risks of sales abroad.

The Government maintains that adequate safeguards for waste disposal are being implemented, and that numerous commissions and inquiries have shown the CANDU is operationally safe, although a controversial accident at Ontario's Pickering Station at the time of writing has stirred debate about its safety. It asserts that it offers reactors for peaceful purposes only to countries willing to accept Canada's stringent safeguard policies.

c. The Candu

The basis of the Canadian nuclear industry has been the internationally-recognized Canada-Deuterium-Uranium (CANDU) reactor system. The system employs heavy water as a moderator and coolant, combined with a design which maximizes efficiency, allowing the reactor to use natural uranium as a fuel. The result is that a high percentage of uranium is converted into usable energy. The design also facilitates the feeding of the reactor while in operation, extending plant availability. It can be altered fairly simply to different fuel cycles. Aspects of the design are relatively easy to adapt to countries with less advanced industrial structures.

The CANDU's domestic success has been largely due to its employment of a complete and mostly autonomous nuclear fuel cycle for electrical generation, using Canadian resources and technology, its economic competitiveness with coal-fired generation in eastern Canada, and its proven technical record. CANDU plants in Ontario (whose electrical utility, Ontario Hydro, is one of the world's largest nuclear generating firms) have set world records for low cost and performance.

G. RENEWABLE ENERGY

In the 1970s when people were becoming increasingly conscious of diminishing petroleum supplies and the environmental costs of conventional energy use, greater attention was given to the possibility of exploiting unconventional, renewable energy sources such as biomass, sun-

light, wind and tidal power.

As of early 1982, the Federal Government had already allocated nearly $40 million to 235 demonstration projects in renewable energy and efficiency technology. These have included the commercial demonstration of a fluidized-bed wood-gasifier in Hearst, Ontario, an aquaculture waste heat utilization project for fish rearing in New Brunswick, demonstration of air infiltration testing and sealing techniques for residences in Manitoba and a promising wind diesel electrical generation system near Sudbury, Ontario.

Federal-Provincial conservation and renewable energy agreements have been reached with six provinces and the territories, providing for joint funding of projects coming from the private sector. More than $68 million had been provided by the Federal Government for this program in 1982-1983.

Nevertheless, however great the potential of some of these sources, major technological problems stand in the way of large scale utilization of any of them. It is not likely that they will in this century contribute any more than the minute fraction of Canada's energy supplies which they currently furnish.

1. Biomass

Canada's biomass resource inventory is estimated to be the third largest in the world. It includes forest and agricultural products and residues, as well as municipal wastes.

Although biomass accounted for nearly all the energy used in Canada about a century ago, today it accounts for only about 3-4%. Over 95% of this current use results from the on-site conversion of waste produced by the forest products industry.

The Government has a number of programmes to research and develop biomass technology, to demonstrate new technologies and promote biomass conversion. Among these are:

i. The Forest Industry Renewable Energy Programme (FIRE), which offers grants to promote the displacement of oil by the wood residues resulting from their operations. Since the NEP the programme has been expanded to include all industries and commercial users who wish to use any biomass alternative.

ii. A joint venture involving Canertech, a Crown cor-

poration specializing in energy technology, and Nouveler, a Quebec Crown corporation, which is to demonstrate the production of synthetic gas from wood. A pilot project involving the generation of ethanol from cellulose is in an advanced planning state.

## 2. Solar

About one-third of Canada's energy demand is in the form of low-grade heat below 100 degrees C. Much of this is for water or space heating. If conventional energy costs again rise and solar equipment becomes more competitive, solar energy could potentially make a significant contribution to meeting this demand. The Department of Energy, Mines and Resources has estimated that in 2000 solar energy could meet 1% of Canada's energy needs.

The Government has taken a number of steps to promote increased research into and use of solar technology:

i. Solar heating systems in industry and commerce are eligible for a two year write-off against corporate income.

ii. The Purchase and Use of Solar Heating Programme concentrates on finding ways to utilize solar energy equipment in Federal Government buildings.

iii. Through federal-provincial agreements demonstrations of solar technology are financed.

iv. A national solar test facility has been established outside of Toronto.

v. The construction of more than 800 solar water heaters has been funded as a test of the applicability of such technology in the Canadian environment.

## 3. Wind Power

Wind power appears to have limited application on account of the fact that the windiest parts of the country are distant from the major population centres. Even in populated areas where there are adequate winds, they tend to be intermittent and randomly fluctuating. Nevertheless, wind technology is being researched in various settings across Canada. In 1980 almost $2 mn was spent by the Government to support such work.

Much of this research centres on Canada's most notable contribution to the field: the Darrieus Turbine. The largest of these is located on the Magdalen Islands in the Gulf of St. Lawrence and can feed a modest 230 kW into the local grid. Smaller such turbines are being tested in other locations around the country. A much bigger version of the Magdalen Islands turbine, capable of supplying 3.8 megawatts -enough to meet the non-heating needs of 600 households- is being constructed in Quebec.

### 4. Tidal Power

For years the possibility of harnessing the energy of the Bay of Fundy tides (among the highest in the world) has been discussed. Nova Scotia and New Brunswick are currently studying such a project. To provide tidal power a dam eight kilometres long would be built at one of three sites on the Bay. This could create as much as 5,000 MW of power per year. It is anticipated that large amounts of this power could be sold in the nearby New England states.

## H. EFFICIENCY

Although one of the major goals of Canadian energy policy in recent years has been to shift from oil to other fuels, this has been accompanied by an effort to promote more efficient use of all fuels. It has been argued often that greater efficiency provides the cleanest, most enduring, and frequently cheapest part of the solution to the oil problem.

In recent years the demand for most energy forms had not risen as quickly as once expected. There appear to be two factors: a) higher energy prices, in combination with greater public awareness of energy supply problems and the need for energy conservation, prompted efforts to utilize energy more efficiently, b) the slowdown in the national economic growth rate since the first round of oil price increases in 1973, and in particular the recession of recent years, have also contributed to a lowering of demand.

During the 1970s, the Federal Government implemented a

number of programmes to encourage efficiency. Further initiatives were announced in the NEP. They were designed to overcome the structural impediments, information barriers and financial constraints discouraging efficient energy use.

1. Residences

The Canadian Home Insulation Programme (CHIP) has been a major cornerstone of efficiency efforts. By mid-1982, over 1.2 million Canadians had been provided with grants to offset the cost of insulation. Under the NEP, the Government has expanded CHIP. Up to 80% of homeowners are now eligible for benefits.

To encourage conservation in new housing, six million dollars have been allocated to subsidize the construction of 300-500 super-efficient houses, which use about 25% of the energy required by a conventional home.

2. Industry

Industrial energy use per unit of output has fallen 15% in 1972-1982, a saving equivalent to 137,000 b/d of oil. This has been assisted by a number of Federal policies:

i. An accelerated capital cost allowance is available for specific assets that save energy or utilize non-oil energy sources.

ii. Sixteen industrial energy conservation task forces have been set up to increase management and employee awareness of the operating costs savings possible through appropriate energy management techniques. A commercial task force is underway starting with hospitals and the hospitality industry.

iii. Through the joint Federal-Provincial National Energy Audit, an on-site energy inspection service is provided to industry, commerce, churches, and public institutions. The service is conducted using special "Energy Bus" vehicles, which are equipped with a computer system and sophisticated energy measuring devices, and staffed by engineers and trained technicians.

3. Transport

In the transport sector the Government has tried to improve efficiency by promoting higher vehicle fuel consumption standards, graduated weight taxes for cars and conversion to other fuels. The Propane Vehicle Grant Programme provides $400 grants toward the conversion of new commercial and farm vehicles to propane. The goal is to have 100,000 propane-powered vehicles by 1985. Similarly, a programme has been set up to encourage the conversion of vehicles to compressed natural gas. It is being tested on 1,500 vehicles thus far.

# CANADA AND MEXICO. PRELIMINARY NOTES ON THEIR ENERGY POLICIES IN THE 1980S*

*Gabriel Székely*

North America, it has been argued in recent years, is so well-endowed with complementary human, capital and natural resources that pursuing a comprehensive regional cooperation scheme is a task worth the effort. This is especially true now that the world is facing severe economic problems and new challenges.

There is a great degree of economic interaction between the region's 320 million people. In 1981, for example, trade between Canada, Mexico and the United States approached $115 billion (U.S. dollars); accumulated, across-the-border direct investment by individuals from these three countries in the region totalled over $75 billion. And at the end of 1982, 93 billion barrels of the world's oil (14%) and 376 trillion cubic feet of the world's gas (12%) reserves were located in North America.

Not surprisingly, the idea of a unified North America originated in the United States, which is a country particularly concerned about the geopolitics of energy since the oil price revolution of the early 1970s. An American participant in a recent symposium on Canadian-Mexican relations raised the following pointed question: "The vulnerability of the U.S. to future oil supply shocks poses serious problems for both Canada and Mexico. Why has this danger not given rise to appropriate planning by Canada and Mexico?" 1/

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* See Prof. Székely's opening comments in DISCUSSION 9/27/83 FIRST SESSION.

In fact, we are faced with an interesting paradox in North America. While U.S. bilateral relations with her northern and southern neighbours are solid and growing, the prospects for a three-way cooperative arrangement or even for enhanced Canadian-Mexican interactions do not seem as bright as some would think. This paper focusses on the prospects for cooperation between Canada and Mexico in some energy-related areas in the 1980s.

There are varied and complex reasons to explain why cooperation between our two countries will remain limited. For example, Canada and Mexico follow different definitions and approaches to "security" in general and to "energy security" in particular. These differences, in turn, are rooted in each country's perceptions of and relations with the United States. Canada is a prominent member of the advanced industrialized nations, with whom she coordinates her policies to protect her economic and political interests. To understand Canadian policies in these fields one has to look to NATO, the OECD, and the IEA among other organizations. For example, as a close ally of the United States, Canada shares the view that the West should be prepared to face a potential disruption of oil supplies that could threaten its security and stability. Whether such a disruption would follow from a conflict between Middle Eastern states or from an outsider's adventurism in that region (i.e., a great Soviet involvement there), Canada is obligated to act in unison with the United States and its allies.

By contrast, Mexico has a more relaxed interpretation and attitude toward the significant changes that have characterized the world oil market since 1973 (Mexico does not feel uneasy about these changes). Further, Mexico feels quite uncomfortable about projections and scenarios of potential overseas conflict in which Mexico is pictured as coming to assist the United States - especially if OPEC or other fellow developing nations are involved. Mexico is not obligated to act in support of the U.S. in all circumstances, that is, Mexico has more leeway than Canada to decide whether or not to help the U.S. protect her security interests in a particular situation.

Moreover, it should be noted that the role of the state in each nation's economic and political life and in the energy sector is quite different. For example, in Mexico the state owns the resources and controls practically every aspect of the energy industry (production

and commercialization of hydrocarbons, power generation, geothermal energy and the incipient nuclear industry). Major decisions are made in Mexico City by a few government officials. Thus, the state is ultimately responsible for the nation's economic and political interests related to energy. By contrast, the Canadian constitution holds that natural resources are under the authority of individual provinces which, in addition, enjoy or otherwise fight for a considerable degree of independence concerning decisions that affect ownership, production, pricing, transportation and the commercialization of energy resources. And foreign actors still play a key role in some sectors like hydrocarbons (U.S. companies control about 70% of this industry), further undermining the ability of the central government to take effective and coordinated decisions in some cases.

Finally, it could hardly go unnoticed that geographical proximity and the stronger bonds that link Mexico and the United States (or, for that matter, Canada and the United States) explain the lower level of interest and of incentives to encourage greater Canadian-Mexican cooperation. Mexico tends to look to the United States for capital, technology and trade exchanges of hydrocarbons and other energy sources.

There is a widely shared view in some U.S. circles that Canada and Mexico will show greater interest in the "North American idea" as economic and social interdependence in the region keeps growing. Canada and Mexico, on their part, have repeatedly expressed their concern that the U.S. might become a threat to their viability as sovereign nation-states as interdependence develops further. They specifically fear that an increasing number of events and decisions will fall beyond governmental capacity to influence them. In this respect, a central hypothesis in this paper holds that, ironically, our two countries will be more likely to act together as the process of what some have called "silent regional integration" continues to evolve. The objective of Canada and Mexico in this case would be to resist or at least to regulate such a process, rather than to encourage it.

From all that has been said, to identify areas of close bilateral cooperation in energy in the 1980s seems a hopeless endeavour. However, recognizing the dynamic character of economic and political realities as well as the fact that exercising our imagination consti-

tutes a central objective of this seminar, the following section explores potential areas for such cooperation between Canada and Mexico.

## The Feasibility of a Bilateral Energy Agenda

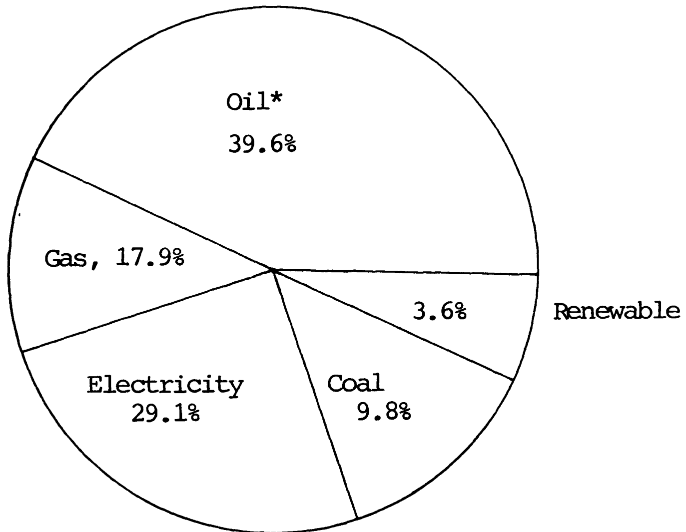
One way to approach this issue is by looking at each country's energy profile and demand forecasts for the remaining years of this decade. Canada's National Energy Programme and Mexico's Energy Plan provide a good starting point in this respect. While these plans represent the official views of both governments today, the following discussion acknowledges that they are subject to change.

The diagram below shows that hydrocarbons are critical for providing the total energy needs of both Canada (57%) and Mexico (89%). However, these two countries show important differences in terms of reserves, production, consumption and trade patterns. These in turn are key questions in understanding the energy demand forecasts through 1990 drawn up by each respective government. In what follows, attention will be focussed on crude oil, natural gas and nuclear power.

### Canada

Proven oil reserves have fallen in the last few years from 11 to 7 billion barrels. Although it is common knowledge that there are large volumes of oil still to be tapped, disputes between the central government and the Western provinces (conventional oil) and escalating costs (the Alsands heavy crude project), are among several factors that have contributed to slowing down the prospects for adding to Canada's proven oil reserves before the turn of the decade. The large Hibernia oil field discovery (holding approximately 1 billion barrels) will not come on stream until 1990. It is for this reason that Canada has made great efforts to reduce her consumption of oil through fuel substitution and conservation. In this respect, Canada has been one of the most successful among the industrialized nations. For example, oil consumption dropped by 2.3% in 1980 and again by 6.7% in 1981.2/ If this trend continues, Canada will come close to achieving

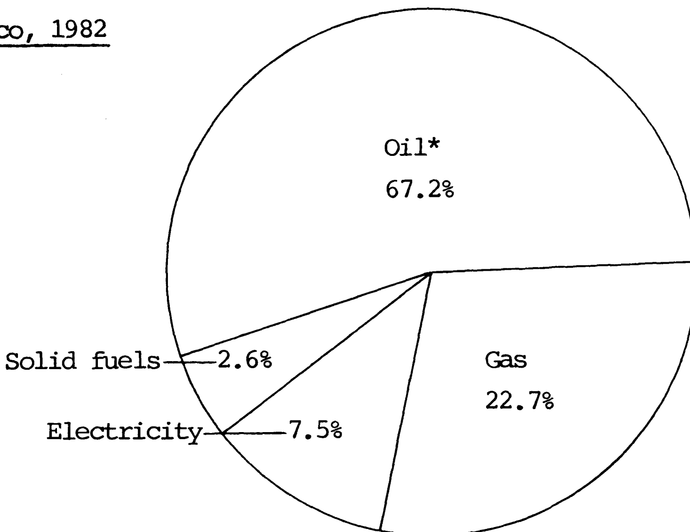
<u>Canada, 1981</u>




Canadá. <u>National Energy Programme. Update 1982</u>, p.83.

* Includes liquified petroleum gas.

<u>Mexico, 1982</u>




México. Dirección General de Energía, Secretaría de Patrimonio y Fomento Industrial, 1982.

one of her central goals of reducing oil demand from 1.82 million barrels per day in 1979, to 1.47 mn b/d in 1990. It is expected that by 1990 the share of oil in total energy needs will have fallen to 29%.3/ Further, the government hopes to achieve self-sufficiency in 1990 when production from new domestic fields will be available, thus rendering unnecessary any imports of petroleum (the latter will average one-quarter million barrels per day during the 1980s).

At present, Canada is a net importer of crude oil. She prefers to import that product on her eastern shores rather than building expensive pipelines to send petroleum from the fields in the Western provinces. Some oil found in the latter region is exported to help foot the nation's total oil import bill. Actually, some of these peculiar trade operations are also explained by the differing interests of eastern and western provinces and by the individual needs of U.S. oil firms that are so heavily involved in Canada.

## Mexico

Mexico claims 57 billion barrels of proven oil reserves and is today the world's fourth largest oil producer and exporter. Mexican oil output doubled (to 900,000 barrels per day) from 1970 to 1976, and then it increased threefold during President López Portillo's term that ended in 1982. This country is in no hurry to switch away from oil although some efforts are being made to diversify the profile of its energy supply.

Mexico's National Energy Programme (published in 1980) assumes that energy demand will grow by 8 to 9% throughout the decade. This in turn is closely related to an expectation no longer supported by any serious analyst of the Mexican scene: the economy was expected to grow annually at 8% during the same period. Finally, a policy of gradually bringing domestic energy prices to international levels in addition to conservation efforts, was expected to improve energy efficiency in Mexico. Under such conditions, oil demand was expected to rise from 1.3 mn b/d in 1980 to 2.3 mn b/d in 1990.4/ Exports would be kept at a fixed level of 1.5 mn b/d during these years. At such rates of production, Mexican reserves in 1990 would still be well over 40 billion barrels even if no new

additions were made in the 1980s. Note that the dramatic fall of economic growth from 8% during 1978 to 1981, to a negative 0.2% in 1982 (projections for 1983 and 1984 show negative rates of 3-5%), is likely to result in lower domestic oil demand than the Plan anticipated. Greater oil production would follow only a government decision to increase exports beyond current levels to meet its pressing foreign exchange needs. This in fact occurred when Mexico increased her exports to the United States' Strategic Petroleum Reserve in 1981 and 1982. Mexico has become, overall, the largest supplier of crude oil to the U.S., with exports averaging 830,000 barrels per day in early 1983.5/

The foregoing analysis seems to leave little room for significant oil exchanges between Mexico and Canada. Canada's oil imports will be kept marginal before being cut altogether toward the end of the decade. The best scenario from Mexico's viewpoint would involve a slower development of Canadian oil potential, a significantly higher Canadian economic growth rate than is presently projected (3% throughout the 1980s), and a continuation of the Canadian policy of substituting Arab OPEC oil with Mexican oil.6/ Even then Mexican oil exports to Canada would not be much higher than they were in 1982 (50,000 b/d) and 1983 (44,000 b/d).

While involving small amounts, these oil exports will provide Mexico with funds to purchase critical agricultural products from Canada (mainly wheat, sugar, milk and machinery), an issue discussed at length later in this seminar. Another hopeful sign of cooperation involves the Export Bank of Canada, which has recently granted a $32 million (U.S. dollars) credit to a Mexican private firm to buy a Canadian-made oil platform to be used in the Campeche offshore area.7/ This type of deal might encourage greater capital and technological exchanges in future years with participation of business groups from both nations.

As important as oil may be, natural gas constitutes perhaps the most critical issue of Canadian-Mexican energy relations. These two countries together have the potential to supply up to 15% of U.S. total gas needs, although they have been exporting much less than that to the U.S. market.

Canada

Proven gas reserves amount to 97 trillion cubic feet, which is sufficient to sustain the production rates of the last decade for many years to come (about 9 billion cubic feet per day, bcfd). One of the main tenets of current Canadian energy policy is to gradually increase the share of natural gas in the nation's total energy consumption needs. The National Energy Board has projected an annual rate of gas demand growth of 3.9% through 1990, which is twice the expected rate of growth of total energy demand.8/ This projection is based on the assumptions that fuel substitution programmes (namely gas for oil) will continue, and that natural gas prices will be kept down relative to other competing fuels. As a result, the government expects that the share of gas in total energy consumption will increase from 17.9% in 1981, to over 21% in 1990.9/

In 1982, Canada's natural gas output was 8.42 bcfd, of which she consumed domestically 6.30 bcfd; the surplus was exported primarily to the United States (nearly 2 bcfd or 5% of U.S. demand).10/ Interestingly enough, firms operating in Canada were authorized to sell up to 3.8 bcfd to the United States.11/ Exports have been lagging, however, due to successful energy conservation efforts and also as a result of prolonged economic recession in the United States.

According to several key government documents and officials interviewed, Canada is very interested in keeping and even increasing her share of the U.S. market over the next few years. Partly for this reason, Canada's gas export pricing policies have been quickly responsive to supply and demand conditions. Thus, when projections a few years ago showed that oil demand and prices were likely to rise continuously, it made sense to try to close the gap between gas and crude oil prices. Canada actually linked the price of her gas exports to the U.S. to the price of imported petroleum on her eastern shores. Now that such projections have been subject to fundamental change, however, Canada fears that bringing gas prices too close to oil price levels could hurt the substitution value of the former. Therefore, following OPEC's decision in early 1983 to reduce the market price of oil (i.e., Saudi Arabian light) from $34 to 29 dollars per barrel, Canada immediately adjusted her gas export price. The latter had been set at $4.94 per thou-

sand cubic feet, tcf, in 1981 and was reduced to $4.40 tcf in April of 1983. Further, the Canadian government agreed in July to an additional price reduction (down to $3.40 tcf) for any increase in current export levels that occurs through October 1984 (that is, about 50% of total authorized exports to the United States are affected by this decision).

Canada is also highly concerned about the prospects for domestic gas price deregulation measures in the United States. This issue has been hotly debated in the U.S. Congress for over a decade without reaching an agreement.12/ This has contributed to slowing down the development of existing reserves and of gas output in the United States. As soon as significant progress is made on price deregulation, it is likely that domestic producers will increase their output. For this reason, it is important for both Canada and Mexico to keep well informed of the debate in the U.S. Congress on this critical matter that will affect their future participation in the U.S. market.

The construction of a gas pipeline from Alaska to serve the U.S. and Canadian markets illustrates, as a Canadian government official recently expressed, the agreement of both governments on how best to protect their mutual "energy security interests."13/ The pipeline is privately owned and built and is a project strongly supported by both governments. When completed, it will have a total capacity to carry up to 2.4 bcfd of gas. This project further illustrates how Canada has a special stake in maintaining good relations with her southern neighbour in gas issues.

## Mexico

Mexican authorities have expressed that proven gas reserves may be lower than had previously been estimated (the official figure is still about 75 trillion cubic feet). A large share of these reserves is associated with oil in the largest Mexican fields; Petróleos Mexicanos has found in the last two years, however, that as crude oil output from offshore areas has significantly increased, the gas/oil ratio is much lower than it is in inland producing areas (like Reforma, where a 9,000:1 ratio was once reported).14/ This introduces a certain degree of uncertainty regarding Mexico's natural gas po-

tential and outlook for the future.

Natural gas output rose from 1.8 bcfd in 1973, to 4.1 bcfd in 1982. In the latter year, gas accounted for 23% of Mexico's total energy needs. Until recently, large volumes of gas were flared and wasted due to insufficient infrastructure. That situation did not inhibit output growth because much gas is associated with oil production, which continued rising. Early in the López Portillo administration a decision was made to build a gas pipeline from southeast Mexico to Texas, thus aiming to reduce gas flaring by exporting it to the United States. The project went ahead even after it met with the opposition of some domestic groups that argued that the gas pipeline would establish an additional and unwanted "strategic link" between Mexico and the United States. And later, the U.S. government refused to sanction a sales agreement between Petróleos Mexicanos and several U.S. gas companies that included a high price formula for the Mexican product. Later, both sides compromised and the flow of gas exports started in January 1980, though at a much lower level than had originally been planned (300 million cubic feet per day, mcfd, instead of over 2 bcfd; note that the latter is the same amount as current Canadian gas exports to the U.S.).

Projections call for an increase of Mexican natural gas output to 7 bcfd in 1990; gross domestic consumption is expected to double from its 1982 level to 6.3 bcfd at the end of this decade. As in the case of crude oil, Mexico's Energy Plan provides for a fixed amount of gas exports during the 1980s (a maximum 300 mcfd). It should be noted at this point that in the last few months Mexican gas exports to the United States have been cut to only 180 mcfd, reflecting the new conditions prevailing in international hydrocarbon markets.

Natural gas export pricing constitutes a specific issue of interest to both Canada and Mexico. These two countries seem to agree little on their objectives and strategies to maintain their export potential to the United States. In addition to their greater reserves, Canadians point to the small volume of Mexican gas exports to the United States. And more importantly, Canada's interest lies in the northern regions of the U.S., which due to harsh climatic conditions and their location far away from most large U.S. gas fields are transformed into a poten-

tially "captive market." Canadians would not hesitate to reduce the price of their gas exports further to maintain their competitiveness in case U.S. domestic gas output rises significantly in the future. Finally, if one also considers that Canada is generally isolated from continental affairs, and that Mexican politics may appear too volatile to her government, Canada's relative lack of interest in Mexican views and perspectives becomes understandable.

Mexico holds a contrasting-and a rather politicized-view of natural gas export pricing policies. Reducing the price of gas may add to current pressures to maintain depressed prices for hydrocarbons in general. It is probably for this reason that Mexico preferred to cut the volume of her gas exports to the United States (to 180 mcfd) rather than to cut prices. Interestingly enough, the formula under which Mexico finally agreed to export gas to the United States back in 1979 currently sets the price at about $3.90 tcf. Mexico is able today to sell her gas at $4.40 tcf (the Canadian export price for current actual exports) because Mexico benefits from the most-favoured-nation clause included in the agreement signed with the United States. This means that under current market conditions Mexico is fully depending on the willingness of Canada to maintain this price level. Mexico does not seem to have any leverage to persuade Canada to follow a gas export pricing to Mexico's liking. Were Mexican oil exports to Canada more significant, for example, perhaps Mexico would be able to argue her case more strongly and Canada would be more sensitive to Mexico's views. The best that Mexico can hope for is that Canada will listen to Mexican arguments, but bilateral cooperation on gas export pricing should not be expected.

## Nuclear Energy

One of the central objectives of Mexico's National Energy Plan that has been shelved by President Miguel de la Madrid involves nuclear power. The previous administration had set an overtly ambitious goal to develop up to 20,000 Megawatt production capacity by the turn of the century. The cost of such a project could have been over $50 billion (U.S. dollars). The reactors built at Laguna Verde,

in the state of Veracruz, with the assistance of General Electric were the first step in Mexico's nuclear development programme (the output capacity of these reactors will total 1,300 Megawatts). The Mexican programme suited quite well the interests of a Canadian nuclear industry that has been ailing. Falling domestic energy demand, lower oil and gas prices, and some domestic public opinion opposition to the potential hazards involved in nuclear power generation have prompted Canada to search for foreign markets. Several factors account for the fact that Canadian-Mexican nuclear energy cooperation still remains a project on paper and that it will probably stay so for many years to come.15/

For example, there is an ongoing debate in Mexico regarding the actual level of domestic reserves of uranium susceptible to enrichment processes (reserves may total less than one-half the much-trumpeted 15,000 tons quoted by a member of the previous administration). The Laguna Verde heavy-water reactors will use uranium enriched in the United States (some of it is already stored there, as well as in Mexico), or in France. Further, there have been financial and technical difficulties in addition to labour problems that partly explain the enormous delay in concluding the construction of Laguna Verde. This situation is likely to affect any future consideration of re-initiating Mexico's nuclear development program. When and if that occurs, there is no guarantee that Mexico will prefer the Canadian over the U.S., German, French or Swedish bids to provide necessary capital and technology.

This is not to deny that the light-water CANDU reactor offers some advantages that account for the support it has enjoyed in some Mexican government circles. Not only is the CANDU quite efficient and reliable, but the technology and the uranium necessary to run this reactor reduce the prospects of the recipient country's developing enough knowledge to put its nuclear industry to other than peaceful applications. In fact, Mexico and Canada fully agree that every effort should be made to prevent the proliferation of nuclear weapons. However, Mexico would accept the supervision of the International Atomic Energy Agency while Canada insists her own personnel must supervise everything relating to safeguards. The Canadians learned the hard way when India overlooked her commitments and used Canadian technology in part to develop a nuclear weapon capability a decade ago. Finally, Mexi-

co has expressed her interest in learning certain aspects of Canadian technology that Canada prefers to keep for herself; human resources training programmes do not seem to be included in Canada's nuclear export strategy.

It can now be fully appreciated that there are significant forces working against close bilateral cooperation with regard to oil, natural gas and nuclear power. Other energy sources are not discussed here because their importance in the specific case of Canada and Mexico seems secondary (coal and hydroelectricity, for example). Perhaps Mexico could learn from Canada's successful energy conservation programmes that have involved measures such as progressive taxes on cars according to their size and weight; requisites for fuel efficiency; financial and tax incentives to industry and commercial establishments to save energy, and others.16/ There seem to be better prospects for bilateral Mexican-Canadian cooperation in unconventional schemes of this type, rather than in the more hard-core and sensitive areas of oil, natural gas and nuclear power. In fact, Canada has a $250 million dollar fund to assist developing countries to reduce their oil consumption. Mexican authorities should explore this area for potential cooperation.

FOOTNOTES

1. Elliot J. Feldman, ed. Canada and Mexico: The Comparative and Joint Politics of Energy. Cambridge, Mass.: Harvard University Center for International Affairs, Policy Paper 3, September 1981, pp.48-49.

2. Canada. National Energy Programme. Update 1982, p.14.

3. Ibid., pp.81-83.

4. Includes liquified petroleum gas.

5. United States Department of Energy, Monthly Energy Review, July 1983.

6. Canada practically cut all her imports from Iran in the last few years. In addition, imports from Saudi Arabia have been drastically reduced from 164,000 b/d in 1981 to some 53,000 b/d in 1982. See Canadian Energy Trends, May 1983, p.8.

7. "Canadá colabora con Perforadora México al desarrollo petrolero", Excélsior, August 26, 1983.

8. Canada. National Energy Board, Omnibus '82 Backgrounder, January 27, 1983.

9. Canada. National Energy Programme. Update 1982, p.83.

10. See Canadian Energy Trends, May 1983.

11. United States House of Representatives, Twenty-Third Meeting of the Canada-United States Interparliamentary Group, March 4-8, 1982. Washington, DC: 1982, p.18.

12. Useful references include: United States General Accounting Office, Natural Gas Incremental Pricing: A Complex Program with Uncertain Results and Impacts. Washington, DC: 1980; and Guidance Needed on Use of Natural Gas Price Escalator Clauses. Washington, DC: 1980.

13. United States Senate, Twenty-Second Meeting of the Canadian-United States Interparliamentary Group, May 22-26, 1981. Washington, DC: November 1981, p.15.

14. United States General Accounting Office, Prospects for a Stronger U.S.-Mexican Energy Relationship. Washington, DC: May 1, 1980, p.39.

15. An interesting analysis of the Laguna Verde project is found in Rogelio Ruiz, "La problemática de la planta nuclear de Laguna Verde", Programa de Energéticos de El Colegio de México, 1982.

16. See on this issue United States Department of Energy, Energy Demand in the OECD Countries. Washington, DC: March 1981, p.91; Canada is likely to be the most successful industrialized nation in energy conservation throughout the 1980s, according to this study, saving a total 10.5% of projected demand.

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# "THE CHIP IMPERATIVE: TOWARDS TECHNOLOGY COOPERATION?"

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This paper will attempt to investigate the challenges posed to our countries by the increasing complexity and rate of technological change facing us.

It starts with the belief that technology is a key if not the key instrument of economic development. It also starts with a belief -most of economic development literature notwithstanding- that in the present real world, technology -for all practical purposes- behaves as if it were autonomous. Technology today is global. The efforts to manage it are by and large only national in scope. Those national governments that do not understand this "technological imperative," risk finding their development policies at best inappropriate in terms of their proclaimed objectives, but more likely counterproductive or worse.

Whether we like it or not, those responsible for technological policies in our countries will have to consider the new developments in the world of technology as given. This is preferable to nurturing the illusion that somehow we can be in the driver's seat in managing this runaway genie. Technology is really quasi-autonomous.

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* See Mr. Zeman's opening comments in DISCUSSION 9/27/83 FIRST SESSION.

## The Nature of the Chip Challenge

Technology is now rapidly changing on a global scale. The past decade has witnessed the rapid commercial emergence of major new technologies, and the equally significant and ominous rapid maturing and obsolescence of others. Some industries have been totally revolutionized. The 1980s will see an acceleration of the already frenetic pace of technological change. The change could only continue to restructure whole mature industries and markets, while new technologies will be creating entirely new markets and industries. What is more, technology is now rapidly changing on a global scale. In fact, we are witnessing nothing less than a transformation of the whole manufacturing system of the world.

The uneven introduction of automation and information technology into the global economy has been underway for about a generation. The dramatic acceleration of the process has been attributable to microelectronics - the chip. Hailed as the most remarkable technology ever encountered by humanity, the chip, which is smaller than a fingernail, contains hundreds of thousands of electronic components and complex circuits. The power of the chip, which was developed in the 1970s, has increased a hundredfold over the past decade, while at the same time its costs have dropped a thousandfold. The chip is spreading through parts of the global economy like a brush fire, and its diffusion rate is claimed to be seven to ten times faster than that of any previous technology.

At no time in history has there been a broader range of innovations and technologies based on a single invention poised for commercial development and diffusion. The range of emerging or fast-growing technologies is broad, diverse and advancing with increasing rapidity. Simultaneously, the range of applications of these technologies is continuously expanding. There is even more invention in the applications area than in the development of the technologies themselves.

Chips, or more precisely microelectronics, today drives a whole cluster of technologies such as computer-assisted design (CAD), computer assisted manufacturing (CAM), robotics, office automation, microcomputers, CAI/CAL, digital networking, satellite communications, remote sensing, speech processing and expert systems. In conjunction with new developments such as satellites, lasers and optical

fibres, these technologies are likely to become the force which will produce profound changes in the way the world works, learns and lives.

Several generic technologies appear to be the pacesetters of the change. Rapid developments in chip technology itself, as well as in microprocessors, memories, software and speech processing are all pointing towards dramatic changes in the factories and offices around the world.

This wave of new technologies differs radically from that of the past. With four exceptions over the last two hundred years, previous technological changes have typically come into public use in isolation and in series. Today the rate and breadth of technological change is so great that the interactions between old and new technologies, or between a combination of new technologies, have further-reaching, more complex implications than ever before, at least since World War Two. Whether one believes or not that the world is poised to take a quantum leap to a higher technological plateau based on the so-called fifth wave of industrial technology, the numerous signs unmistakably indicate that the 1980s will see even further acceleration of the already frenetic pace of technological change.

The new wave of high technology is, paradoxically, triggering a tide of technological nationalism, uncomfortably resembling mercantilism of the eighteenth century. This time, the name of the game is not bullion, it is technological capability in advanced technologies. This neomercantilism -where governments are getting involved in developing the new industrial infrastructure while closing down their markets to technological product imports- is fuelled by the desire of nearly all governments to harness the cutting-edge technologies in the race towards the twenty-first century.

It is in my opinion inevitable that microelectronics, a truly transforming technology, as it brings new industries into existence and renders others obsolete, will at once create and displace different jobs. For example, the world microcomputer industry has exploded at annual rates of 70 per cent, doubling every year. The office automation and industrial robotics industries have grown at the rate of 35 per cent, doubling in two years. In the process many jobs have been and will be created.

However, within the past several years we have heard new concerns over the issue of "technological unemployment" from people who propose that the dire predictions of the past will come to us with a vengeance in both the advanced

industrial nations and in the developing world, because we have not prepared for this new wave of automation.

There exists a sharp polarization of views between these "pessimists" and the opposing "optimists" who are convinced that this new technology will, in the long run, create more jobs than it destroys, in the same way as any other technology before the chip. No consensus exists on the question of the net job balance created by the development and expansion of the new technologies, and this is where the debate currently stands. The most contentious question -whether microelectronics destroys more jobs than it creates- cannot be resolved with certainty by myself, or for that matter, by anyone else at all at the present time. Only an historian will be able to determine this retrospectively.

Although there is no factual basis for such views, the pessimistic point of view seems to have been gaining more ground lately. Recently, the authoritative 1982 review of national experience with microelectronics, produced by the Organization for Economic Co-operation and Development (OECD) concluded: "On the basis of national projections in the countries reviewed, a rough estimate of the average outcome is that 60 per cent of the direct technology-induced reduction of the labour demand will be offset by 1990, excluding effects stemming from international competitiveness, which could further increase employment in some countries, but not in the OECD community as a whole." It is not difficult to extend this observation to the global community in general.

The message is clear: there will be less jobs available, and it will depend on how competitive each nation is in assuring its workers a better part of the total pie. We have entered a zero-sum game - gains in one sector or country will very often mean losses in others. Job wars are on the horizon, if not now already with us. It is well to keep in mind in what context the chip is being introduced and diffused through the global economy.

## The Context

Communication technology and transportation services have helped to shrink the globe over the last three decades. National economies, encouraged by an environment of relatively free trade, have become increasingly interwoven. This globalization has led to a considerable restructuring of

the world economy on a global scale. The agents of the new dramatic changes are the transnational corporations, multinational trading companies and international bankers - all relatively new actors on the global scene. These multinationals are now responsible for over one-quarter of the gross world product, and their actions inevitably tend to integrate the world economy more and more each day. They have now been joined by some nation-state governments, who are mobilizing their military-industrial complexes for survival in the new competitive world.

What are these "new dramatic changes"? There have been dramatic changes in both the world supply and demand patterns. On the demand side we are reaching the near-saturation of Western markets for "big-ticket" machines: automobiles and household appliances. It seems apparent that we in our time have mined to exhaustion the cluster of seven technologies -electronics, synthetic materials, drugs, oil and petrochemicals, as well as vehicles and consumer durables- which have provided the impetus for the growth of the Western economies for the three decades since World War II. Substitution of new materials for old, and a very successful energy conservation and conversion program only adds to these changes in demand for products within the global manufacturing system. On the supply side, it seems inevitable that world-wide manufacturing of standard, mass-produced goods will continue to be located wherever they can be produced the most cheaply, regardless of national boundaries. The most efficient places for such mass production are coming to be the newly-industrializing countries which spearhead the Third World. There now exists enough evidence to observe that advanced industrial countries are presently moving more or less away from such high-volume standardized production. Some reversal of this trend might be created by the efforts of some companies in the First World to "repatriate" the lost production through automation. These efforts are not likely to buckle the trend. It is as easy to install robots in Taiwan or Korea as it is in North America or Western Europe.

In the emerging struggle to chart the appropriate course in this new, dramatically more competitive environment which is facing both the industrialized societies and the developing countries, from now on far more attention will have to be paid to an underlying factor which has become crucial to companies, entire economic sectors, and whole countries struggling to survive and prosper: technological change.

Technological capability has to be recognized as a vital strategic asset. This is true for a corporation, a sector, and even more true for any country as a whole. The order of the three terms of the simplest production function -capital/labour/residual factor- should perhaps be reversed to read: technology/capital/labour.

The choice is not between acceptance or refusal of technology. The new technology is unavoidable for at least two good reasons: Firstly, mastering the new technologies means positioning their economies for at least several decades into the future. In the same way as the Industrial Revolution eclipsed certain countries while catapulting others to power, this technological earthquake has been, and will be, rewriting the present geopolitical map of the world. Secondly, the mastery of the new technologies means being ahead of others in the capability to defend oneself. The tragic Falkland/Malvinas conflict clearly demonstrated the worth of "keeping up with the Joneses" in the new technology.

To sum up this section, to chip or not to chip -that is not a question.

## The New World

The brave new world is emerging as a duopoly dominated by the United States and Japanese companies. Entering the mid-1980s, the United States still possesses the most advanced capability in the world in the whole spectrum of the new technologies. But the Japanese, like most runners-up, seem to be trying harder, and are closing the gap surprisingly quickly.

The two leaders accelerated the technological race so much that it is possible to feel that the gap between the technological leaders and those who merely follow in response to the chip challenge will increase. The development lags will likely differ dramatically from country to country.

The transfers of the new technology to the "me-too" countries might turn out to be perhaps the most important and decisive factor in creating a new "de facto" International Economic Order.

Other than the present arms sales, where some sixty billion

dollars worth of new technologies passed hands in 1982, any across-the-board voluntary free transfer of microelectronics into other countries is not in the cards for the foreseeable future. Such efforts as the Declaration of Mexico on Informatics, Development and Peace of 1981, and a proposed five-year, one billion-dollar program to be discussed at the forthcoming World Conference on Strategies and Policies for Informatics (SPIN), now postponed, to be held in 1984, will most likely be frustrated since they ignore many facts about these new technologies. Similarly, the demand for a binding code for international technology transfers, called for by UNCTAD, has the ring of a hollow shell. No master plan for global informatization seems feasible in the world in which we live at present.

As the world is not a monolith, and as attitudes towards technological capability differ so widely, a more realistic scenario would be the graduated and differentiated process of individual approaches to technology transfers.

In the developed countries, the Europeans are afraid that they will fall behind in the technological race, and are trying to cope with the chip challenge both individually and collectively at the EEC level. Of the European countries, France seems best positioned to master the new technologies. France is one of the four countries in the world with an independent computer/communications technological capability. It differs from the United States and Japan in that there are weaknesses in certain areas of the technology spectrum, and linkages to the global markets are much more fragile.

In three decades France has made a remarkable transition from a country which exported "wine and cheese," to a country which has made notable advances in railway technology, aerospace, nuclear energy, and most relevant, in telecommunications.

France now has in place a nearly complete infrastructure which may allow it to become one of the world leaders. This infrastructure consists of a national will and a plan for an indigenous industry with a strong domestic market, creative research institutions, and a fledgling export industry with links to strong companies in other countries. The recently announced initiatives to create "filiere electronique" give a new emphasis to the effort to face the challenge of the chip.

Given these circumstances, it is reasonable to expect that France's role in telematique will have strengthened.

Whether or not she will become "Number Three," as her ambitions indicate, only time will tell. There are obstacles. Criticism of "too much, too soon," without sufficient investigation of the resulting socio-economic impact are being taken seriously by the government of President Mitterand. In addition, often bitter conflicts between left-wing and right-wing political factions, and employers and employees, preclude the creation of a Japanese-style triumvirate among government, industry and labour.

The United Kingdom is still attempting to reassert its technological capability in the computer/communications field. Its moderately successful efforts in domestic markets have not been matched by its export capability, despite the continued series of drives associated with the reentry of the government into the field.

Within the U.K. itself, in spite of the diverse steps taken by the government, there is a general perception and continued criticism stating that the country is a long way from having an overall policy in the area of computer/communications. The total amount of monies, committed or projected, are considerably less than those announced in Japan or France. To illustrate, the government set up the ad hoc Alvey Committee to produce a British plan of action for the fifth-generation computer. The committee recommended that a commitment of $700 million be made over the next 5 years to develop a national response. The bulk of the Alvey recommendations, with one exception, have been accepted virtually without alteration. The four main research themes confirmed so far will be software engineering, man-machine interfaces, intelligent knowledge-based expert systems, and VLSI circuits. Needless to say, the Alvey plan was welcomed with delight bordering on euphoria by the industry.

Certainly there has as yet been no dramatic change in the market prospects for U.K. information technology industries, either domestically or abroad. Despite the calls from industry, and editorials in trade publications stating that Britain must have an integrated national policy for information technology, and a statement of goals with a blueprint and schedule for achieving them, it is doubtful whether such a plan is consistent with the approach of the Conservative government. Although it is likely that there will continue to be many special programs, and the government will continue to assign a high priority to information technology, there are few signs of a national plan along the lines of those in Japan or France.

West Germany, the industrial locomotive of Western Europe, is experiencing tremendous difficulty in adjusting to the challenge of the chip. The traditional pillars of the German economy, such as machines and vehicles, are losing competitiveness. The new microelectronics-based industries are seen slipping as well.

In Germany, unlike in other countries, the indigenous telematics industry could not benefit from military programs aimed at the development of computer technology, due to the historical reality in the wake of World War II, which prevented the growth and build-up of a military industry in that country. An excessive reliance on U.S. manufacturers and their technology, however, is only slowly being reversed.

West Germans concerned with industrial development recognize microelectronics as a key generic technology of the future. A deep awareness of the opportunities and threats presented by advances in electronic technology exists in that country. Nevertheless, a comprehensive national information technology policy does not exist. Designing one, in a situation where rather anti-technological trade union interests are strong, will not be easy. Some observers feel that West Germany will fall behind in the technological race, and their desire to survive as providers of patents, technologies and blue prints to the world might not be realized.

Sweden's concerns about its relative weakness in automated production equipment make sobering reading for any country still lacking a comparable engineering infrastructure. Despite all their well-known industrial advantages, the Swedish industrial economy has been, so to speak, running scared in the face of emerging technological competition, despite the fact that they now have the most robotized manufacturing industry in the world.

In Sweden, responsible public authorities have been taking cautious steps towards a more strategic and planned approach to the future industrial and technological development, without wishing to disturb the traditional armslength and diffused relationship between the state and the private business sector. Like the West Germans, the Swedes are aware of the impossibility of taking short cuts in the advancement of the new technologies. They recognize that a lack of skilled labour is a basic constraint, requiring educational intervention, and they have defined broad technological priorities.

Sweden is well aware that the implementation and deliv-

ery of new programs is the Achilles' heel in responding successfully to the chip challenge.

In the Netherlands there was evidence, by 1982, of a growing awareness that the government could no longer afford to stay as inactive or dispassionate as it had been about the need to intervene more positively in the promotion of the new technologies. The Dutch had finally woken up to the challenges of the microelectronics revolution. A leading politician summed up the situation as follows: "It is like a gold fever: Those who are not moving fast will miss the boat. Those who fail to take a lead are forever left behind; those who fail to join the race are forever handicapped."

Industrial competitiveness is taken very seriously also at the level of the European Community. Co-operative efforts have been effective in telecommunications, but much less so on the computer side of the technology spectrum. Europe's increasing lag in microelectronics, as noted, has Europeans running scared, hoping that the pan-European actions such as the much-publicized European Strategic Program of Research on Information Technology (ESPRIT) will reverse the deteriorating environment.

If the challenge of the chip is shaking the First World, it is even more ominous for the Third World.

In reaction to the immensity of the challenge, several "quick fix" recipes, such as "leap-frogging" the industrial era, or "microelectronics as an ultimate appropriate technology" have emerged. These constitute seductive, imaginative, but unfortunately unrealistic plans, which ignore the basic requisites of the development process, such as the need for a supportive infrastructure, and suffer from a lack of capital and skills, as well as problematic attitudes to the acquisition of the new technologies.

In the Third World, the disparity between the nations is even more apparent. Technological capability varies profoundly. What is more, many nations may find out that their newly acquired industrial base is being rendered obsolete by the new wave of technology. However, there are those who are succeeding at the new game.

Israel, for example, has become quite successful in mastering microelectronics. The four "little dragons" -South Korea, Taiwan, Hong Kong and Singapore- through emulating Japan have positioned themselves extremely well in acquiring technological and export capability in these technologies.

Brazil, too, has made considerable steps towards ac-

quiring these new technologies. In Brazil the telematics industry has been recognized as a key sector and it is regarded as highly desirable that the country should achieve the capability of designing, producing, and exporting computers. This goal is promoted in a number of ways, of which the most important are the government's participation in joint enterprises with private industry, and regulation which takes the form of granting licenses to manufacture minicomputers only to foreign companies which are prepared to import technology and build up a design capability in Brazil.

The Brazilian response to the chip challenge has been held up as a model of the type of action Third World countries can take with respect to modern technology. Its proponents argue that it asserts national control, but not in so heavy-handed a way as to make multi-nationals such as IBM, Burroughs, Honeywell, and Sperry Rand leave because of divestiture of majority control.

Brazil has already achieved a position in the export market for minicomputers and assembled systems. To this point at least, Brazilian policy seems to be producing effective results. But in looking beyond the statistics and the newly-established government-protected companies, it is important to remember that Brazil is still very much a developing country in this area. Much of the infrastructure to support effective use of computers is still lacking. Data communication capabilities, and even such essentials as reliable air-conditioning equipment, are hard to come by.

Similarly, India, although on balance hurt by the "expulsion" of IBM, has a large pool of well-trained electronics engineers, and perhaps stands a chance of developing some indigenous technological capability in the foreseeable future, despite only minor efforts to date in the critical areas of technology.

One could continue scanning the national responses to the chip challenge. However, the examples given hopefully demonstrate that the pattern of uneven technological development will most likely be dramatically accentuated even further in the 1980s. It is worth repeating that the geopolitical map of the world will be equally dramatically rewritten.

## Canada and Mexico: Opportunity for Twinning?

If we do not want to become colonies again, this time

technological colonies, we have to start immediately to assess this new environment, assess our present and potential technological capability, as well as that of our competitors, to find our next appropriate response to the chip challenge.

Challenged with the chip imperative, each of our countries will assess its own environment, own technological capability, as well as its own perception of the competition, to determine whether an independent or coalition strategy offers the most appropriate policy.

Irrespective of any government strategies, companies in our two countries will be forced to focus on offering and developing selected niches of products and services. They will have to learn the hard way to serve and compete in global markets. If the entry into the global marketplace has hitherto been optional, it is now becoming imperative, and what is more, it has to be done quickly. Late arrivals might find out that catch-up is beyond reach. The winners in the technological race will win big, while the uninitiated or too cautious will find themselves falling far behind, or failing outright.

The most advantageous acquisition of technological capability in this strategically-important area proceeds by various routes of either indigenous development or of international technology transfer and co-operation. Of the two, the second seems to be by far the more important. Even if we perform miraculously better than in the past, we cannot independently develop more than a tiny percentage part of the global technology pool. The rest has to come from abroad.

It may well be that our respective governments will opt for charting the response to the chip challenge independently or in alliances with other partners. Nevertheless, it might be useful to use this occasion for investigating the feasibility of some cooperative approach between Mexico and Canada to cope jointly with the chip imperative. Perhaps we might indeed both benefit by exploring jointly how to reduce our vulnerabilities and balance our opportunities for entry into the new information age. Our investigation has to start with the Chip Imperative: - both Mexico and Canada are challenged not to be left out of the forefront of these powerful new technologies. Canada and Mexico are not really facing the chip challenge from the completely different "North" and "South" perspectives, separated by the Great Divide. In fact, despite the well-known successes of Canada in the telecommunications and satellite segments of the

technology spectrum, the two countries have more in common than generally believed.

What do we then have in common? We are both direct neighbours of one of the two giants of new technology, and we are both very dependent on the trade with him. Trade with the United States accounts in both countries for some seventy per cent of all of our foreign trade. Furthermore, we are both neighbours across the Pacific with the other giant of the information age - Japan. No other countries of the world are in a similar strategic position vis-à-vis the New Duopoly. But the similarities do not end here. Both countries have similar size of their effective market, if we take into account the "de facto" marginalization of some 45 million of the Mexican population. Both countries have to rely nearly exclusively on the technologies developed abroad. Neither Mexico nor Canada has any significant indigenous chip manufacturing capability. The same is true for indigenous mainframe computer production. The robotics industry in our two countries is non-existent. Both countries are afraid to be left out of the race into the information age. In both countries the computer/communications spectrum of technologies has been to date provided by the United States. Most recently, we have seen both the appearance of at first consumer electronics and now of the microcomputers from Japan in our markets. There are thus quite a lot of surprising similarities. There are, however, quite dramatic differences between our two countries. Those 45 million marginalized Mexicans make, of course, the largest difference. They do represent an added burden for the Mexican strategists. There are also big differences in the new information infrastructure between our two countries. The pattern of human settlement in Canada along the U.S. border helped Canadians to develop the infrastructure which is comparable to those of the United States. Their inventiveness makes it in some segments, such as cable TV, even better than south of their border. Whatever way we look at our two countries, the fundamental fact that one is a relatively rich and the other a relatively poor country cannot be abstracted away. The income distribution is much more skewed in Mexico than in Canada. What if the new technologies would even further promote inequity? What is more, the present liquidity crisis limits the room for action by the government of Mexico quite dramatically.

Mexico furthermore does not share in the development of chip-rich defense technologies with the U.S.A. that provides Canada with some further comparative advantage. To

continue, Canada possesses a superior telecommunications network, satellite manufacturing capability and most importantly a real capability for world-class software production.

On the other hand, Mexico's been quite successful in persuading the U.S. manufacturers to produce state-of-the-art minicomputers in Mexico, offering itself as the springboard for their entry into Latin American markets.

Last but not least, there exists a significant difference in perception of the role of the state in economic development. The Canadians seem to be much less interventionist than our Mexican friends.

To sum up, there are some surprising similarities, but also very significant differences between our two countries. If there is a political will for cooperation, on what can it build? Where would one start?

As Mexican-Canadian relations have intensified, it is not inappropriate to assume that they will be even more intensive in the future. Increasingly, Mexico and Canada will keep finding that they face similar problems in coping with the new emerging technologies.

It is not perhaps inappropriate to suggest that we can start learning from each other's experiences. The leading policy thinkers of the two countries could pave the way for opening up such a learning process. Let me repeat, in my view we could learn from each other. Above all, we could learn from comparing true costs and benefits of intervention (Mexico) and a limited intervention (Canada) in the world of new technologies. As the new economic realism is gaining considerable ground in both countries, the time now is more appropriate for looking beyond the ideological dichotomy of "dirigisme" versus "free-market" to come up with a more realistic grip on new technologies. Useful lessons could also be drawn from a comparative analysis of the existing technology support structures and mechanisms in our two countries. For instance, there is no Canadian government agency concerned with a systematic acquisition, diffusion, and release of the technology.

If it is true that some 99 per cent of our technological capacity comes from abroad, Canada might need a Technology Council, perhaps as large as the Science Council, which has been so far focussed on serving only a tiny part of our technological base. Such an agency could reinforce absorption, diffusion of technology and facilitate our technology exports.

In this context, perhaps much could be learned both

positively and repetitively by Canadians from over the decade of Mexican experience with the Registry for the Transfer of Technology and the Use and Exploitation of Patents and Trademarks and from over six years of experience with the official agency responsible for telematics policy.

We might also learn from each other about our experiences with foreign-controlled multinational companies. Canadian technocrats are now slowly accepting that cooperation rather than confrontation with the new multinationals -which are, by and large, the owners of the microelectronic know-how- brings about the most successful transfer of new techniques to our countries.

Studies of international technology transfers by Mansfield or Baranson in the United States or by the Economic Council in Canada point out that the transfers via multinationals are the most efficient channels for transferring the latest, most advanced technologies. To a certain extent, this is not surprising, because all foreign controlled firms in Canada are members of large corporate groups, members of "the global technology pool club." Seeing the foreign-controlled companies as assets rather than as exploiters and ideological adversaries calls, of course, for a serious re-assessment of attitudes within the economic development community. It is a painful process in Canada, and one might suspect that it will not be any less painful in Mexico.

We can also consult each other on how to deal with the new investment. The new industries are footloose and they could be attracted. The advantage will lie with those offering the "best place to live," with access to loci of excellence, as well as existing university/research infrastructures, and cheap, highly-motivated labour available. The lack of these characteristics puts nation-states at a handicap. Again learning from each other's successes and failures could benefit us both.

Finally, is there space for any direct Mexican-Canadian technological cooperation? At first glance, such space seems quite limited. Mexico seems to be focussing on deeper aspects of its present predicament. Adjustment to new technologies is but only one dimension of the present crisis. It is a fair bet that Mexican priorities for development might be sought elsewhere focussing on domestic issues of food and energy. In technology, it is quite probable that Mexico will prefer to go it alone in the world where everyone is forced to look after himself. Even if

there were foreign partners sought, they might not be Canadians as the first choice. Linkages with Americans or Japanese might look more profitable, linkages with other members of the Club 77 might be more advantageous politically.

However, if one looks closer, there is some space for cooperation - not only in high technology, but also in medium and low technologies: Canadians do possess the North American technology, and they are not threatening partners.

The "problématique" surrounding any technology strategy is quite a complex one. Therefore, the following agenda for research should be seen as no more than the first -rather simplistic- attempt for a shopping list of ideas for an embryo of such joint research programs. The research agenda could emerge only after meaningful dialogue among those interested, after this meeting, in a careful design perhaps over a period of a year or two.

## An Embryo of an Agénda for Research

If agreed upon, the joint program could study on the general level, the actual processes of international technology transfer. The dynamics of transfers could be critically analyzed. The various channels, such as direct investment, joint ventures, technical assistance, training, financial aid, licensing, know-how transfer, and others, will have to be discussed.

The transfer and absorption-capability evaluations will have to be clarified. A special study of the "boomerang-feedback" problem could be made. The idiosyncrasies in the trade/aid dichotomy should be highlighted. Various effects of direct, and indirect, transfers could be analyzed.

More specifically, the role of the technology factor in our national development might be stressed in another study. The new international competitive situation would be discussed here, as would the myths and realities of the actual technology acquisition situation in both countries. The past role of the government in national technological development in selected areas could be assessed. As mentioned, the present institutional technology-support structures and mechanisms could be succinctly reviewed. The special characteristics of the situation pertaining to the transfer of emerging information technologies might form a special area of focus.

The present and foreseeable needs for high technology

transfers in both countries could be determined. The indigenous capabilities across the whole technological spectrum in both countries might be assessed. Technologies ripe for transfer between us might be identified. Furthermore, comparative studies on the technology transfers from the U.S. to Mexico and Canada might be contemplated. Similarly, high technology transfers from Japan to North America could be analyzed. Comparison of transfers to the U.S., Mexico and Canada could be made.

We might also attempt to throw some light on the problems of technological capability acquisition in our two participating countries through carefully-selected case studies. Each of the cases could deal with a different technology, and even more importantly, would address a different set of questions.

While Computer-Assisted Design (CAD) might be an interesting area for the case studies, CAI/CAL, Videotex and Office Automation seem to be the most promising areas to be focussed upon. Educational technology driven by the microcomputer has undergone a dramatic change in the latter part of the 1970s. With the collapse of the price of microcomputers, it is now realistic to speak about access to computer terminals for each child in the school system in Canada, and a decade down the road even in Mexico. The control of the content of the instructional/learning material by the national governments will be of great interest to both government systems.

The actual approaches of the two countries could be juxtaposed. The ideal approach would be drawn out, and the feasibility of various forms of co-operation for such a joint Mexican/Canadian venture would be explored.

In videotex technology, Canada is more advanced than Mexico. This case study would serve to illuminate the ideal conditions for the mutually-beneficial transfer of technology from Canada to Mexico.

In office automation technology, both countries are faced with the dominance of foreign technologies. Nevertheless, in Canada there are two sources of technological capability: AES (state participation) and MICOM (multinational company-owned).

The process of technology transfer via the channels of the multinational company (eg. Philips N.V.), would be contrasted with the potential for transfers with the help of government involvement.

While synthesizing the findings from the case studies is a notoriously difficult process, it should be attempted.

The critical policy issues in the short, medium and long term might emerge.

If successful, this joint program could reach the following three main objectives:

1. It could sensitize the decision-makers of both countries with regard to the importance of the emerging computer/communications (telematics) technologies to national development.

2. It could contribute to the illumination of the various processes of the technological-capability acquisitions in this specific field.

3. It could explore the feasibility of international technology transfers and co-operation between Canada and Mexico in this area.

Hopefully, the research program that we might get here underway could contribute towards a repositioning of our respective technological bases through better understood technology flows, both into and from our countries.

## In Conclusion

The two policy research communities now have considerable experience in studying the policy aspects of computer/communication technologies and of technology acquisition processes. It is therefore only appropriate that they should attempt to launch such a joint project serving the common interest. Such a co-operative effort could be beneficial to all parties concerned.

It is hoped that the successful realization of this project could start a longer-term relationship between the two policy research communities of Mexico and Canada, and thus contribute to the more effective mastery of the development process in both countries.

It should be noted in closing that the trend towards technological nationalism is now beginning to be reasonably well understood. Associated most closely with countries such as France, Japan or Brazil, but also with other nations such as Ivory Coast or Algeria, technological nationalism -direct government involvement in technology policies- has been gaining ground around the world. Our governments are now feverishly seeking high-level proprietary information technologies to obtain strategic advantages for their companies, in the hope that this will boost exports and create employment. In this endeavour they need all the assistance which they can obtain.

Those who are responsible for designing their respective countries' industrial strategies -or "industrial development policies" as the business community in Canada would prefer to label them- will have to think out their new technology strategies very carefully. Changes in global technology, and possibilities for Canada-Mexico cooperation which have been sketched could form an input into their decision calculus.

Whether our governments will think of cooperating or not, it is my belief since so much is at stake, that technological issues will get where they belong - much closer to the center of our political thinking in both countries.

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# DISCUSSION 9/27/83 FIRST SESSION

Chairman: Prof. John Holmes (University of Toronto)
Section 3: Policies on basic resources: energy and food. Technological cooperation

Two papers were presented: the first by Prof. Gabriel Székely from El Colegio de México and the second by Mr. Zavis Zeman from ZZ International.

At the beginning of his presentation Prof. Gabriel Székely commented the following:

The first academic contacts that I had with the Canadians were when I was a graduate student at the Johns Hopkins University that has a very strong Canadian studies programme. But my first contact with the theme of Canadian energy actually occurred about 1978 when the World Peace Foundation, which many of you are familiar with, founded the project for studying potential areas of cooperation in energy between the U.S., Canada and Mexico. As matter of fact, that project fell through due to lack of interest and perhaps even some fear on the part of Mexicans and Canadians as to what the U.S. objectives were in getting involved in such a project. The U.S. participants were very frustrated by the project falling through.

It is paradoxical for me to find myself five years later exploring once again this subject and to find, on the one hand, that Canada and Mexico, for the most part, have acted very generously towards U.S. interest as far as energy issues are concerned. Secondly, there are very few areas for potential bilateral cooperation in the field of

energy in the 1980s. The issue of greater Mexican-Canadian cooperation was really raised in the U.S. within the framework of a larger idea, the idea of North American unity. As a matter of fact, some could consider this a significant diplomatic achievement for Mexico, because the U.S. first acknowledged that Mexico belongs to North America and not to Central or South America.

As a conclusion to his presentation Prof. Gabriel Székely said the following:

The prospects are not too good for significant cooperation between Canada and Mexico. I want to acknowledge however that, as we have witnessed in the last ten years since the oil price revolution, the situation in the international oil market changes very dramatically and rapidly. We cannot forecast now what changes will occur in the following years nor can we forecast what political changes will occur both within Canada and Mexico which may bring forward new factors that will either encourage or keep cooperation limited as is the case today.

At the beginning of his presentation Mr. Zavis Zeman commented the following:

In my contribution I would like to focus on the role of the factor that has been quite often overlooked in the analysis of geopolitical and economic factors, that is, on the role of the new technology.

I would like to stress that I am limiting myself to discussing the role of the new technologies. I am quite deliberately omitting even slight remarks on medium and low technologies which are probably of much greater interest to Canadian-Mexican relationships, but I understand that they are the subject of the inter-governmental discussions and it might be inappropriate to comment on those.

Mr. Cassio Luiselli
(ECLA):

I agree with most of the statements made in Mr. Zeman's paper, although I would like to be more specific about the proposals because I found them too generic and a little blurry. I agree intensely that this is not science fiction, but there is a global restructuring of the economy al-

ready taking place and very large-scale integration. Cheap manufacturing is the very heart of the global restructuring of the economy. It has many implications in computers: robotic and information. I like the way he mentions the emerging duopoly between Japan and the U.S. Actually 2/3 of the world's chips are being produced and consumed in either the U.S. or Japan. This is very important because we are in the Pacific Basin and we are neighbours of the U.S. Therefore, as Mexico and Canada are not far away from the feature centre of the world economy, there is plenty of room for joint strategies between both our countries.

I would also like to put other labels on this global restructuring. Perhaps number 2 is bio-engineering, although it will have to wait a while because we do not understand how to go from single cell organisms to more complex ones. But there is no question that the bio-engineering sector will be the second part of this global technological revolution. Other points are: ceramics, optical fibres, lasers and other sets of new materials.

I further agree that this revolution is taking place very rapidly and this has many implications for the policy makers. I also think that it is unavoidable, there is no way to close out the world anymore; whether we like it or not we have to face the challenge of microelectronics or the whole technological revolution. There is no quick fix solution, no overnight solution, we need some policies but also a lot of infrastructural creation, actual research innovation and adoption, we cannot skip these hard tasks of research and development within the countries.

The challenges for Mexico and Canada are somewhat similar but they do have their differences. The risks and challenges for Mexico are more and more profound; three reasons for this are:

1) If we do not make any kind of adoption of this robotic and microelectronics revolution we are going to lose markets for manufacturing. This would be a major tragedy for us since we developed from the import substitution industrialization and only ten years ago we were in the stage of entering the developed markets with our manufactures. However, with the robots and with the incorporation of memories and chips into the products and into the process, our competitive advantage is likely to diminish. This is a very serious challenge for newly industrialized countries such as Mexico, Brazil and Spain.

2) The employment problem. I do not want the future historian to condemn us for poor policy. The problem is

that we are already facing an enormous pressure in the job markets; Mexico is so much more backward than Canada in providing education and basic needs and now we not only need to provide literacy for our population but we have to teach them how to operate microelectronic devices and how to programme, etc. For this reason I am rather skeptical and concerned with this challenge for Mexico.

3) It is very much related with the employment issue, it has do with the inequalities of the Mexican economy. Mexico is a very acute income distribution country and we do not want this revolution to increase the huge inequalities in Mexican society.

I would like to stress the similarities between Mexico and Canada, but what gives us the strength for strategic ventures between us is the great complementarities that we can develop. It is a little untrue that we are very similar, we have enormous differences and being close to the U.S., we can tap these differences in a very strategic way if we work together. We both are in the Pacific Basin, we are already strong partners in the global community, we are neighbours to the U.S. Mexico is a unique Southern country because it is both modern and backward, it is both poor and rich, it already has at least 25 million people whose consumption is like the First World and very sophisticated urban dwellers, but, at the same time, Mexico has almost 50,000,000 underprivileged people.

Canada is also young but it is also rich and developed and for the microelectronics revolution it is a typical latecomer and that is important for both of us.

I agree with Mr. Zeman's proposal of having a joint research agenda; academies, government and private enterprises have to get together and try to look for common solutions or answers. I would like to be more specific in three main areas: we must take into consideration, we must recognize the uniqueness of Mexico, being a poor country but, at the same time, dynamic, modern and close to the U.S. We have to recognize our income distribution problems and unmet basic needs, especially in food, housing, health, mass transit, urban problems and also the enormous challenge of employment and education that Mexico is facing.

Therefore, the whole catch of the strategy would be on the uses, on the range of applications, as Mr. Zeman said, of the technological revolution. Do we want the chips for producing video cassettes for the rich people in Mexico

City? Or do we want the chips to meet the basic needs of the country as a whole? I agree that there is a lot of research and empirical work to be done but this is the heart of the challenge, we cannot avoid the chip revolution. We have to forget those saturated markets that Mr. Zeman mentioned and try to adapt the technological revolution for the basic needs of a country like Mexico. This is our main difference with the four little dragons that Mr. Zeman mentioned. We can and we would like to export microelectronics to the advanced countries of the North, but we had better take advantage of our own huge market and create technology which can be adopted for our needs and we can also export these technologies to other Southern countries like Brazil, Asia, India, etc.

So as to create a demand we should tap the potential market for products that can incorporate the technological revolution. It is not only chips, it is biotechnology, new materials; this is the crux of the matter. In that field we can cooperate with Canada. An example of the videotext that Mr. Zeman mentioned are our CAM/CAD technologies for planning or design manufacturing. We should start from the demand, we should first create software capabilities which can adapt to actual Mexican needs. For example, what are the needs of rural secondary or technological education; to use videotext technologies, to create software capabilities? We will first create a demand for the hardware. This is the right way to start a strategy, to catch up with the microelectronics revolution. In these areas we can cooperate a lot: videotexts, CAD/CAM, etc. We do not need office automation in Mexico, we have only just started having a middle class with accountants, secretaries, etc; first of all we must meet other needs of our society.

I can tell you something similar about biotechnology in the food area, which is my own area of specialty. For instance, genetic engineering and agricultural techniques that make up the ecosystem, are more compatible with small-hold agriculture and Mexico is a country with small plots. We can therefore adopt some of the features of biotechnology for our own problems of small plot agriculture.

My third suggestion to Canada is the starting of a joint venture in the U.S. market, the creation of joint concerns in Silicon Valley, which is not far away from Canada nor from Tijuana. There we can learn about the critical mass of creation and all about these technologies. We

could also create what I would like to call "maquiladoras al revés," to establish corporations in California so as to take advantage of the sharp competition between Japan and the U.S. We can have affiliates in Mexico for the mass production of certain products.

Summing up, there is plenty of room for Canada and Mexico to cooperate, to catch up, but let us all stress our complementarities rather than our very minimal similarities.

Prof. Theodor Cohn
(Simon Fraser University):

The previous paper focused on areas where Mexico and Canada could have common interests, certain common problems and possibilities for cooperation. In some of the research I have been doing I have also been looking at areas where there are possible common problems and talk of common approaches by Mexico and Canada to these problems. However, in this discussion I shall be focussing on food and agriculture. In many respects, if one talks about the peasant sector in Mexican agriculture, Canada and Mexico are worlds apart. In focussing on these two different worlds I view food and agriculture as only one part in the Mexico-Canada equation which also involves things like trade, foreign investment, energy and other issues.

A major policy initiative under the López Portillo government was the "Sistema Alimentario Mexicano" or the SAM, the Mexican Food System, which was introduced in March 1980. SAM was a strategy involving food production, commercialization, processing, distribution and consumption in Mexico. One of its goals was to establish Mexican self-sufficiency in basic staples. Since the person who designed the SAM system is sitting next to me, Cassio Luiselli, I shall not go into a discussion because he is obviously much more of an expert on SAM than I am. Instead I am going to try to focus on what I view as some of the possible linkages between Canada and Mexico, and when I look at the trade aspect I am going to take a somewhat pessimistic view.

The SAM programme under the present administration has basically been phased out. Today, the reality is that Mexico is highly dependent on the U.S. for food grain im-

ports; however, the trade with Canada has increased in recent years. Would it be advantageous for Mexico (I am not talking about political feasibility right now) to import more food grains from Canada and relatively less than it has been from the U.S., despite disadvantages with regard to transportation cost and other factors? Would this promote greater food security for Mexico? I would like to examine Canadian food policies in an effort to answer this question but, first of all, I shall give you a brief view of the position of Canadian agriculture and Canadian agricultural exports.

Canada is one of the major food exporters. In 1982, its agricultural exports were a record 9.3 billion dollars and it had an agricultural trade surplus of 4.2 billion dollars. Around one half of the income of Canadian farmers is now derived from agricultural exports. Canada, like the U.S., depends on agricultural trade as a positive contribution to its balance of payments.

I shall mention very briefly some of the agreements made between Canada and Mexico to this point, just to set the framework:

- In 1980 both these countries signed a memorandum of understanding on scientific and technical cooperation in agriculture. It involves an exchange programme of scientists and a twinning programme between research establishments in Canada and Mexico.

- In 1981 an arrangement was agreed to for the supply and purchase of agricultural commodities.

- In 1982 a memorandum of understanding was signed in the animal health field and there are a number of possibilities which one could get into for joint ventures and for technological agreements which Cassio Luiselli alluded to. But what about Canadian policies? If Mexico depended more on Canadian grain exports and relatively less than it has been on U.S. grain exports (obviously the U.S. would be the dominant supplier) would it have more security? To be able to analyze this issue of security of supply I shall start out by looking at what is Canadian policy on food grain reserves because this is obviously an important issue to Mexico in terms of security. I shall briefly go through some of the history.

In the 1950s there were accumulations of large wheat surpluses in several Western countries and this eventually led the major exporting countries to set up a foreign assistance programme for surplus disposal of foodstuff

which later became called surplus utilization.

In 1954 the U.S. enacted the public law for the aid programme, although Canada did not have the massive food aid programmes that the U.S. did in the 1950s. However, despite the food aid given, partially for the purpose of surplus disposal (depending on the commentator it varies as to how much), in the late 1960s wheat stocks in Canada, the U.S. and Australia increased greatly. There were a variety of reasons such as the Green Revolution in this period.

Aid given was not an adequate use of these surpluses, the stocks were building up. The result was that the major exporting countries developed programmes to encourage farmers not to produce. For example, in 1970 Canada introduced its LIFT Programme, Lower Inventory For Tomorrow, it was a one-year adjustment programme that gave Canadian farmers financial incentives to make drastic decreases in wheat production. As a result of the LIFT programme, Canadian wheat production sharply decreased and as a result of the cutback programmes in other major exporting countries (the U.S. cutback programme was much larger than Canada's) the world was especially vulnerable to what followed in 1972: poor weather, Soviet crop shortfalls and other unexpected events. In 1972 to 1973 international food stocks decreased to their lowest levels in twenty years. If Mexico is going to be a fairly major importer of Canadian food grains, would a LIFT programme be possible again?

Unlike the U.S., the LIFT programme was pretty much a novelty for Canada. Although Canada has supply management programmes it does not normally establish direct limitations on acreage. The Agriculture Secretary, Eugene Whalen, often speaks against limiting production. Earlier this month he said: "With 400 million hungry people in the world I believe we all have a responsibility to develop our own food production." On the other hand, Ardell Lang, a former federal minister responsible for the Canadian Wheat Board, threatened in 1975 to institute another LIFT programme if it was felt to be in Canada's commercial interest. Dr. Don Karlberg has maintained that the U.S., as the largest food grain exporter, must carry most of the burden of agricultural adjustment. One could add that Canada must also be aware of this fact. This is one factor Canada has added to, towards maintaining food re-

serves, which would be a very important factor to Mexico if this would provide a greater security of supply. I am purposely leaving it open-ended because I believe that there is no conclusive answer.

Another food security issue also stems from the crisis in 1972-1973 and this is when the Soviet Union and other rich nations purchased most of the available food grains. This led to the legitimate concern that developing countries are denied access sometimes even to food purchases on a commercial basis during periods of shortage, because developing countries are often treated as residual customers to be served only after export commitments are filled to better paying, more regular developed-country customers.

Mr. Jerome Lejoie, former president of CIDA, proposed a possible solution to this problem in 1975 and this solution was referred to as the Right of First Refusal for Developing Countries. It was not an aid programme, it simply stated that to avoid having Canada's entire grain exports sold to our usual customers, namely the richest and best supplied with food products, that a certain amount of the food would be put aside to be available to developing countries, not as aid but to buy in periods of shortage. The strategy paper of Canada's Aid Agency, the CIDA (Canadian International Development Agency), for 1975 to 1980 also mentioned this Right of First Refusal as an issue that should be considered. However, the Canadian Wheat Board and other commercial interests in Canada were strongly opposed to this issue and it was not implemented. There was an article in the Financial Post referring to this Right of First Refusal proposal that said: "Such a proposal, if ever implemented, could badly disrupt the Canadian Wheat Board's export business. External Affairs Minister MacEachan let the air out of this balloon when he was asked about it in Parliament. But not withstanding the disclaimer, CIDA needlessly irritates the private sector; in an already chancy period it floats rash, inconsiderate proposals."

Another food security issue that Mexico would have to think about relates to the issue of food power. When SAM was introduced in Mexico, concern about U.S. food power was mentioned as a factor. Indeed, President Carter had announced a partial embargo on U.S. exports to the Soviet Union in January 1980 in response to the Soviet invasion of Afghanistan. Two months later, in March

1980, the SAM programme was announced. There is some controversy over this issue; some writers say that the food power idea was raised by President López Portillo in part to get support for the SAM programme. Another factor which one should mention is that numerous studies, even before 1980, raised serious questions about whether food power could be used effectively.

Nevertheless, regardless of why SAM was formed and whether it was related to food power or not, what about Canadian attitudes on the issue of food power? In part of a study I did on Canadian food aid I found that Canada has usually been reluctant to withhold food aid to exert political influence. I did find evidence that Canadian food aid was withheld, under certain circumstances, from Indonesia under President Sukarno in the 1960s and there was a case in regard to Vietnam where both Canada and the U.S. acted fairly jointly in the World Food Programme in regard to their own foodstuffs. Even though it is a multilateral agency a country can talk about where the food that they give to the World Food Programme goes. However, overall, Canada has been far more reluctant, for a variety of reasons, than the U.S. to withhold food aid for political purposes. For example, the issue is mentioned about India's "peaceful nuclear explosion" in 1974 and Canada made a point, even though it cut off nuclear aid, to say from the start that it was not going to cut off food aid to India. Although Canada does not give food aid per se to Mexico, it is an issue which Mexico would have to consider.

How about the 1980 U.S. grain embargo against the Soviet Union, how did Canada act there? Canada, along with Australia and the European Community, had agreed to participate in the sanctions by keeping grain sales to the Soviet Union at "normal and traditional levels," but each exporter used its own definition of what "normal" was. Canada and the European Community more than doubled their grain sales using the previous seven-year averages of their exports to the USSR as the base. The base that Australia used led it to export more in 1980 than in the previous four years combined. Although Canada, in one sense, went along with the embargo, in another sense the countries did have a certain freedom in deciding how much they could export. Another issue that Mexico would also want to consider is the one of Canada and Cuba.

In some research I have done, I have looked at the

failure of negotiations, between 1978 and 1979, to establish a new International Wheat Agreement. This would have been important to a number of developing countries because it would have involved a reserve stock established by agreement and held by the signatories of this agreement. These stocks would have been accumulated in surplus periods and released in periods of shortages. There were a variety of divisions in the International Wheat Agreement negotiations, but the only aspect of it that I shall get into is that the major wheat exporters -U.S., Canada, Australia and Argentina- although they did not agree on every issue, did tend to take fairly united positions for the sessions of the International Wheat Agreement talks when the major exporters met with importers; usually it was a group of six: the U.S., Canada, Australia, Argentina, the European Community and Japan.

One of the major issues in the International Wheat Agreement negotiations which led to the controversy was a very important issue to the developing countries. Because of the inadequate storage capacity in many developing countries, they wanted financial assistance to defray the costs of acquiring reserves by improving storage facilities and maintaining adequate stocks. However, most major trading nations, whether exporters or importers, were unwilling to provide such assistance as part of a new Wheat Agreement. They felt that such aid would interfere with the commercial aspects of the agreement and should be kept separate, so the IWA talks collapsed. A month later the major exporting countries were invited, and went to Ottawa for discussions on exporter cooperation as an alternative to the IWA which we do not really have today.

One last issue I would like to mention is the variation in marketing and whether that would make a difference to Mexico. It is highly uncertain. It would be possible in terms of the types of agreements the U.S. has today with the Soviet Union, etc., but for the fact that Canada has a Canadian Wheat Board state form of trader and that the U.S. is more privately run. I do not want to give the impression that my whole view of the agricultural issue is fairly negative. What I am saying is that on this particular issue, there is plenty of reason to feel that Canada is very much in the Northern camp, if there is a Northern and Southern camp. This is obviously an issue of impor-

tance to Mexico.

Canada has been involved in some important technical assistance in agriculture and technological agreements. This is one area where there would be a valuable amount of complementarity, etc. Canada is involved in the IDRC (The International Development Research Centre) and with the Consultative Group on International Agricultural Research.

One of the main centres which is also involved in controversy in Mexico is the CIMMYT (International Maize and Wheat Improvement Centre) and Canada has been very closely involved in this. I therefore agree with Cassio Luiselli when he said that technical cooperation is an avenue where there are many possibilities.

Prof. Theodor Cohn
(Simon Fraser University):

I do think that Mexican agricultural exports are incredibly crucial. I was looking at some figures: from 1977 to 1978 Canada was the third largest source of agricultural imports to the U.S. after Brazil and Mexico. Mexico obviously exports a lot to Canada too.

Prof. Kurt Unger
(El Colegio de México):

I shall try to build up on Mr. Zeman's paper, taking into account Cassio Luiselli's comments as well, but I am taking a different direction; my comments are mainly geared to a national view rather than to a global perspective of international competitiveness which seems to be the basis of Mr. Zeman's paper.

The first two very long parts of Mr. Zeman's paper seem to me highly descriptive, uncritical and disproportionately long as compared to other considerations that I shall have to see. My impression is that the paper starts before a basic framework is developed. After the introduction he moves on too soon to search for Canadian-Mexican common opportunities. The basic framework ought to describe or take into account three things:

1) A deeper analysis of the character of the interna-

tional crisis and the technological dimension which is linked to it. We all hear about the depression, unemployment, etc. but another very important dimension on the technological side has to do with the control of technology which is again back in the centre of the strategies pursued by the superpowers. We ought to develop or to enter into these new technologies without taking into consideration the conflicts over the aim to control technology. It seems to me that this area is lacking.

2) We could work on this theme of the technological dimension by taking into account what has been discussed during these past few days, with heavy technological dependence on one side but also learning or accumulating capabilities in some other sectors of the industry on the other. We therefore should start to identify where we can get hold of resources that we already have, before we move into new areas.

3) This is probably the most important item. Some of the issues have already been suggested by Cassio Luiselli on basic economic, social and political aims or goals that we need to put forward for the Mexican economy in comparison with those put forward for the Canadian economy. If this is included we could then start thinking about common objectives and finding some ground for sensible cooperation.

At the conclusion of the paper there is one premise that I find in common; it says that "technological issues must get to the centre of political thinking." The author seems to suggest that the microelectronics revolution carries two prescriptions:

1) That it has to be the main avenue for the future development of industry everywhere.

2) Microelectronics is also suggested as the main industry to lead future industrial restructuring locally and internationally.

These two aspects are the core of my concern. Firstly, there are obvious socio-political constraints that point towards national priorities above international trade, competitiveness and goals. The priorities, in the case of Mexico, appear to be weighted very heavily towards the development of domestically integrated industry counting on our more or less domestic market. That is to say that the development of capital goods and basic consumer goods for the domestic market are clearly at the

forefront of Mexican priorities at the present time and for the immediate future.

The strong priority for the transfer of technology proposed for this high tech with the aid of conventional international trade, comparative advantages and true multinationals, may be right in the long run but it is not always the best for the near future, and it certainly has not proved to have been the best prescription in the past. Certainly the climate at the present time has not supported these ideals much; everybody is engaged in protectionism and with the building up of the reservoir to retaliate should it be necessary.

As for the role of the microelectronics technology in the future, say in the medium run ... there are technical and economical considerations which make its applications less viable in some industries than in others. There is one paper, for instance, arguing that only botched production of equipment is likely to be enhanced by the implementation of CAM, CAD, CAI (the computer data devices). Mass production and custom production of equipment, back to the capital goods priority, are less likely to be affected by the new technologies.

In the case of the traditional consumer goods industries, the standard mass-produced goods, as they are mentioned in the paper, are also less likely to be affected by the technology itself. There are other factors that may be, as they have been in the past, more important and which determine these industries such as labour, raw materials, consumption, pollution creation and so on.

With respect to the second prescription, that of the role of microelectronics in restructuring global industry, it is also a topic giving way to very different views. I certainly do not subscribe to the optimistic one which foresees a new not-so-brave world in which the North tips all the good economic areas, those close to the use of electronics, nice, clean and creative jobs; whereas the South is left with the rubbish. The present crisis and the uneven chances for different countries to achieve top competitive levels, which are well summarized in the paper, lead me to think much more in terms of domestic oriented policies. The low and medium technologies which are only superficially mentioned in the paper deserve much more attention.

Within this framework and the brief suggestions, I shall rate the chances of Mexico as one of the few with needs, which is not as poor as we tend to think, if only a sensi-

ble balance of domestic versus exporting international strategies is pursued. This advocates much less openness to multi-international cooperation than proposed and which has already left many scars in our recent past. This is of course a main research issue for the near future.

I will finish off with a concrete response to the question of whether the examination of the national registry of technology transfer experience will be of any use for Canada or other countries. I happen to know a little about the dealings inside this body and, unfortunately, there is little to offer except for the experience one gets in facing the difficulties when managing a real transfer of technology and technological development policy; a policy which is geared to directing the accumulation of capabilities and the diffusion of these capabilities all across the sectors. With this registry we have ended up with the acquisition of a roomful of documents whose use nobody knows.

Therefore, stressing my main message, we have to define our internal priorities and then find out how technology should be managed within these priorities.

His Excellency Mr. Russell McKinney (Canadian Ambassador to Mexico) was asked to comment on Prof. Székely's paper:

I found Mr. Székely's paper extremely knowledgeable and complete and full of intelligent speculation about the possibilities for Canadian-Mexican cooperation. He has covered most of the basics in the theme and I congratulate him on it.

One thing that intrigued me right at the beginning of the paper was to see some discussion about the prospects for continental arrangements. As he said, the idea of these arrangements in energy is part of the larger idea about continental arrangements of an all-embracing kind and presumably covering other things such as trade and investment.

Let us go back to where this began, in 1979, during President Reagan's campaign. I do not believe that the idea of trilateral cooperation: Canada, the U.S. and Mexico, had ever been mentioned seriously or advocated much before then, certainly not at a presidential, prime-ministe-

rial or potentially presidential level, this was something rather new and President Reagan's proposals were for what he termed a North American accord.

The year 1979 marked the beginning of the second oil shock, it was a Presidential campaign year. One of the rituals that U.S. presidents from time immemorial have gone through, either in their campaign or as soon as they come to office, is the tribute they pay to the value of good neighbourship with Canada and Mexico and they frequently make a considerable effort by first visiting either Ottawa or Mexico City. What President Reagan had in mind was never really spelled out but, broadly speaking one can speculate that, as Prof. Székely's paper says at the beginning, the continent is well-endowed with all required resources: human, capital and natural. Perhaps the president was longing for a well acted machine of an integrative kind that would bring all this together in one piece and, if there was a basic reaction or view of it, certainly in Canada and Mexico, it was that it may have implied a trade-off of natural resources from Canada and Mexico against access to American investment capital, etc. But the president did not define it even as far as I have speculated about it here. It fell on very sensitive ground when it was publicly and directly rejected by President López Portillo and Prime Minister Trudeau in Ottawa in May 1980 and not a great deal has been heard of it since. One can ask oneself: Has the U.S. lost interest? Or have the realities of world events pushed this into the background?

I am reminded here of the Monty Python skit about the man who bought a parrot and took it home. The parrot was not very lively, in fact it was moribund. The purchaser took it back to the Cockney Bird Shop which sold it to him. The seller explained that it was not dead, that it was just resting. One can wonder whether this is the case with ideas about North American accords. The voices that we have heard recently, favouring the idea, are rather far removed from centres of responsibility in the U.S. Senator Jackson has been one strong voice pursuing this; Richard Allen, since he left the post of National Security Advisor, has also been speaking about it.

I get the impression that if you draw a line down the centre of this continent we occupy you will find that the idea of North American arrangements is distinctly more interesting on the Western side of it than that of the Eastern side. You take your Albertas and your Colorados and perhaps into the American Southwest and that is where the pressure is coming from.

Nevertheless, North America does seem to be an exception to world patterns. It is one of the only large geographical areas in the world where formal integrative arrangements have really not been seriously attempted. It would be interesting to see if the whole thing reemerges in the 1984 campaign. The idea is not easy for either Canada or Mexico, but it is much easier for Canada. Integration with the U.S. is not even a discussable subject in Mexico, as I understand it, except, perhaps, in academic circles. We have been discussing it in Canada for over 150 years.

Within the last couple of weeks we have announced a broad new trade strategy for the 1980s and the author of that strategy, the Canadian government, edged up, quite gingerly, to the notion that some kinds of integrative arrangements with the U.S. in the trade field, some parallels for additional examples of the agreement we have with Americans about automobiles, might be possible. Therefore, one does not go for the whole bottle of wax of a free area, let alone a Common Market, but conceivably by sectors, it would be in Canada's interest to be striking special integrative arrangements with the U.S.

In Mexico the U.S. is seen as a problem and that is the case in Canada as well, but there is more willingness in our country to see the U.S. as an opportunity and to extract maximum advantage where it is possible, by, for example, exploiting them. When one talks about what can be done on a continental basis, it is far more promising to talk about it by way of political consultation on a tri-partite system, within a framework where Canadian and Mexican ideas about the state of the world and the role the U.S. should play in it can be brought to bear on the big power centre in Washington. That kind of activity, rather than full-blown economic plans of a very ambitious nature, is more likely to give you a fruitful result in tri-partite relations than economic plans.

Prof. Székely talked about the stronger nature of the Canadian obligation to be helpful to the U.S. in energy matters in times when energy insecurity may be important. It is true that Canada is under more obligation because our energy relationship with the U.S. is of longer standing; we are, after all, an allied country and partners in the International Energy Agency, but one could make a mistake by interpreting that obligation in formal international relation terms. The big factor that operates, in the sense that Canada must be helpful to the U.S. in energy, is in the private

or business sector; it is a matter of the investment we have in North American energy infrastructure, pipelines, that sort of things, which have to be amortized over a certain number of years. As a purely business matter there is pressure and there is incentive from Canada to be helpful.

By one or another definition, it could be said that Canada and the U.S. have an integrative energy policy now. I would not like to carry that statement too far, but it is true that the U.S. has been our principal and very large energy market over many years and such efforts as we have been able to make to achieve diversification of our energy export policies are pretty much marginal and to one side. They consist of such things as plans, now in the development stage, for the sale of liquefied natural gas to Japan and possibly out of the Canadian Arctic to European markets. This is of little importance, the U.S. position is set as far as Canadian energy export policy is concerned.

Prof. Székely said that Mexico was not obligated, in the same way, to support the U.S. in all circumstances and he implied that it had more leeway than Canada to decide whether or not to be accommodating to U.S. interests. I believe that is right on a formal institutional level but, of course, no has to ask oneself what happens in an emergency. What would the U.S. need in a time of stringency? And it is much more likely to be Mexican oil than Canadian gas.

The International Energy Agency, of course, was very active during the second oil crisis. Its habits, its thoughts, its methods deal in world energy balances, not bilateral energy balances or arrangements. The IEA matches up global supply and demand in shortage situations and it suggests policies which its member countries might be well advised to follow in those circumstances. You all know the list: you are advised to stay off the stock market for one thing, and not bid up the price to exploit your new sources and substitute alternate sources for oil, you are urged to maintain an appropriate pricing policy which has not always been easy for Canada. Our country is well-endowed with energy, we believe that it is not unreasonable to consider our energy abundance as a factor endowment, as an element of our national comparative advantage. We have not always pleased our IEA partners by maintaining low energy prices, particularly when the latter feed through into our manufacturing sector and can, occasionally, operate to give a cost advantage.

I mentioned the International Energy Agency because the operations of that organization tend to buffer, in a way, bilateral pressures on either Canada or Mexico in an emergency.

Simply because the IEA looks at the situation in global terms and does not put its emphasis on: "Well, U.S., if you need more oil go to your neighbours," it buffers that effect.

I agree with Prof. Székely's main conclusion, that both Mexico and Canada are well-endowed with hydrocarbons; Mexico with oil and Canada with gas. Over the whole panoply of things, it is cooperation and relations with the U.S. that are interesting in this Canadian-Mexican context. However, the cooperation prospects are not negligible.

I will now go on to a couple of points mentioned by Prof. Székely: one is his statement which says that Canada would not hesitate to reduce further the price of their gas exports to maintain their competitiveness if U.S. domestic gas output rises significantly in the future. Well, the price cuts we have made so far, once in March and again in June, were, as he rightly pointed out, a response to the market in the U.S. but they were very carefully stated to be short-term measures, I believe the period is 18 months for the Board of Incentive Pricing Scheme, and while we wish to be responsive to American markets we are not likely to sell our non-renewable resources for very much less than their maximum value for any longer than we can avoid.

Secondly, I am glad Dr. Székely covered the nuclear side; it is quiet for the moment. I wondered yesterday, as I listened to Dr. Urquidi talk about the desirability of developing countries buying only things that they need and not things that they do not need, whether he had in mind anything to do with nuclear power development, maybe we can smoke him out on that sometime later.

There is a statement saying that Mexico would accept the supervision of the International Atomic Energy Agency while Canada insists that her own personnel must oversee everything related to safeguards. I think Dr. Székely meant the traditional Canadian insistence on having a bilateral agreement with the recipient country in nuclear cooperation. But the implication that Canadian safeguard standards are higher than International Agency standards is wrong; we are quite content to leave all that in the hands of the Agency but we do ask that, when we are exporting nuclear equipment and components, we have bilateral agreements. The reason for that is that in the view of the Canadian government there is no more important or sensitive area of cooperation in international affairs than nuclear cooperation. You do not undertake it with people whose credentials you doubt, at least you try to avoid that. The

conclusion of a bilateral agreement between good partners who have confidence in one another in a way places the seal of approval, particularly from the point of view of the Canadian public, on the deal.

The floor is opened for discussion:

A Canadian Delegate:

I would like to begin by recalling that the trilateral project was the consequence of a very cold winter, 1978-1979, in the Northern states and the year of the general elections which were to follow. Canada responded to the U.S.'s needs and I want to talk about our obligations towards the U.S. as Dr. Székely mentioned. We have fulfilled these better than our partners to the South have. Let me remind you of the Northern pipeline project that was to be launched in 1978 or 1979 and it is still to be launched in 1983. We feel that these engagements were made by our partners to the South and the project is still not on its way.

As for Dr. Székely's cooperation between Canada and Mexico with regard to oil production he did not mention the efforts that are being made to exchange expertise on second recovery, heavy oil and the extraction of the tar sands. I wonder if Dr. Székely would not mind commenting on this programme of cooperation between the two countries.

Prof. Székely
(El Colegio de México):

I did not mention, during the exposition of my paper, the few areas of cooperation that exist in oil. It involves, for instance, the fact that the Canadian Export Bank has been willing to assist some Mexican private business groups with credits to purchase some Canadian-made platforms which will be used in the Campeche area where most of the Mexican oil production comes from. Therefore, there is room for cooperation as is stressed in the paper. I am not aware, however, of what you have mentioned in the sense that Mexico would be acting together with Canada in respect to heavy crude oil projects.

Another Canadian Delegate:

I know of a programme that is working with the Disray Line to second recovery and with heavy oil and the tar sands project. I was wondering whether there were any such projects with Mexico.

Prof. Székely
(El Colegio de México):

To the best of my knowledge this is not the case because our oil fields do not share the characteristics of Venezuelan oil fields which in some cases are closer to the Canadian geological strikes.

Prof. David Pollock
(Carleton University):

One of the purposes or spin-offs of this colloquium is to see whether there might be areas of specific research that could be carried out by Canadian-Mexican entities on problems where there could be a significant payoff to Canada and Mexico in the future. I am not sure that what I am saying is correct but we mentioned something similar yesterday. I therefore ask myself at the end of the excellent presentations that, for those of us who are not experts in food, energy and technology, it would be correct to say that for food and agriculture there is probably not a significant payoff. Prof. Cohn warned Mexico a bit by saying that Canada is very much in the Northern camp to the extent that there is a North-South camp on food security and Mexico should be aware of this. Ambassador McKinney says that huge Mexican-Canadian cooperation on energy is not very likely. Prof. Székely says: "It can now be fully appreciated that there are significant forces working against close bilateral cooperation in respect to oil, natural gas and nuclear power." I am not quite sure whether Mr. Zeman felt that there were large potential payoffs or that it would just be a good idea, as it is a good idea for everything to have a joint research agenda.

The question I am putting to the floor is on food, energy and technology: would these seem to be the kinds of

high-potential payoff areas where a joint economic research programme might be contemplated as a result of this discussion?

Prof. Omar Martínez Legorreta
(El Colegio de México):

I was having a series of doubts while I was listening to the two excellent papers we have heard this morning and the comments that followed. Now that Prof. Pollock has just mentioned that idea (for a joint economic research programme) I can think of no other subject of greater importance in the years ahead, in the rest of this decade than the topics of food, energy and technology (there is always talk about food, energy, and technology security). If ever there is going to be a field for cooperation between Mexico and Canada, I would say that these three subjects would come very much to the fore. For instance, this huge plan which is now being launched, I am referring to the Pacific Basin, to the Pacific Community, about which Mr. Zeman has already written. The primary plans are now being taken into consideration and they are to be revised so as to be more or less in the form proposed to be presented to the governments and countries concerned next November in Bali. The conference on the Pacific Basin Community is going to deal mainly with the aspects of technology, food, energy, etc.

So again, I am just voicing and expressing the hope that if we ever find some common ground for research, it would precisely be on these subjects.

Prof. Székely
(El Colegio de México):

I will make a general comment on the context of what Prof. Legorreta said. Sometimes what comes out from the exercises may look a little pessimistic, but if we are optimistic we can begin to prepare the ground for new and fresh ideas to develop once we have discovered that those fields in which we thought we could really cooperate are not really fields that are sure of much cooperation. This

may be the case in the three critical areas that Prof. Legorreta mentioned for the future years. If we go beyond this broad, general, overambitious scheme that originated in the U.S. about the North American Accord and begin to look into more specific points, putting aside the idea that we are working, as the European Community did about 30 years ago, towards a progressive integration of certain aspects of our economies, and try to be more modest, then, in due course, we shall be able to come up with new ideas as to how the three countries of this North American region will be able to find areas for cooperation.

I hope that in my paper it is very clear that in Mexico, despite all rhetoric to the contrary, we tend to view the U.S. as as much of an opportunity as you also do in Canada. There are different political factors, domestically, in each of these two nations, Canada and Mexico, that explain that in Mexico we sometimes like to stress the negative aspects of our geographical propinquity to the U.S. If you look at the real world and the kind of exchanges that we have with the U.S. society, it is clear that we see it as an opportunity and we have taken plentiful advantage of it in the past. Heavy costs have also been involved historically in our relationship with the U.S.

There are many interesting issues that can be discussed and, in this respect, I fully appreciate the excellent comments raised by Ambassador McKinney which brought forward some of the really important facts that I have tried to reflect in my paper. There is one, for instance, that is very significant: the issue of an emergency. In his own words, more or less, he asks if Mexico would not come to assist the U.S.? It so happens that unfortunately, from my point of view, Mexican authorities, at least in public, have not given any serious thought to what Mexico would actually do in a situation such as the 1973-1974 oil embargo crisis. Then we were fortunate in the sense that we were not oil exporters but oil importers, only a decade ago; but now that Mexico is the fourth largest oil producer and exporter, what would happen if a new international conflict made Mexican exporters strategically an important commodity source for the U.S.? Unfortunately, in Mexico the government has not, over the years, defined a policy on this issue, it has rejected what seemed to be a diplomatically safe scheme that was proposed three years ago by the study of the Rand Corporation prepared for the U.S. Department of Energy. This corporation suggested that should

an emergency arise, Mexico would have excess capacity production of oil that would be, in this case, managed together with the International Energy Agency precisely to avoid what Ambassador McKinney very rightly mentioned, these potential obstacles that might arise. Mexico rejected this proposal without coming up with a feasible alternative. In other words, should an emergency situation occur in the future, some plans may exist on how Mexico will respond to this real situation. So far there is publicly no knowledge of what the policy is, other than rejecting that we shall automatically assist the U.S. In this respect, it is important to consider that what is written in this paper is an academic view, as objective as possible, of what governments' positions are rather than my own personal position on either of the two sides.

There is another very important comment that Ambassador McKinney made on the Canadians' gas export price cuts. I raise this issue probably for the reason that many people in the audience think. To a large extent, it can be argued that Canada has been acting more responsively, from the commercial point of view, than Mexico. Mexico has, as I have mentioned, politicized this issue with some exaggeration because it has not been proven that there is an automatic linkage between whatever happens to gas prices as referred to what happens to oil prices.

Finally, on the nuclear supervision measures, Ambassador McKinney very rightly pointed out that the Canadian government is acting in a way that is responsible not only in terms of the international standards or agreements, which the international community has agreed upon, but also in responding to Canadian public opinion. The ground where I see some lack of understanding is that the Mexican government also argues that it would not accept a type of bilateral agreement when it comes to a nuclear development programme accord for several years, because it is responding to Mexican public concerns that if we sign such a type of agreement our sovereignty would be subject to certain foreign influences. I am again just pointing out the views of both governments rather than taking up a position on either side because there are elements, intelligent arguments put on the floor by each side.

One of the facts we should take into account in the future is: where is the middle ground? If Mexico decides to go along with the Canadian Nuclear Development Programme in the future, how will we come to an agreement on this very specific issue and try to reduce those very divergent views

that now exist? So both governments, I expect, are responding to the concerns of public opinion and, probably, the role of universities, which do research and thinking together with politicians, is to provide new arrangements whereby a middle ground can be found.

In this respect, my last remark is that if we extract from this point the conclusion is that, probably, in those areas, at least in the field of energy, we may engage in close cooperation. If this is not the case there should be other areas, some have been very briefly suggested as in my paper: the issue of conservation where Canada could teach us a great deal but also, maybe, the systematic involvement of universities and of business groups, in both countries, will help to create new thinking on potential areas for cooperation. This is because the ones that were identified by governments (this is the experience of the last 10 years or more) unfortunately do not seem to be great grounds for close bilateral cooperation. We do not have to reach the conclusion that there is no grounds for any cooperation because there is some, limited now, and they may be able to increase if business groups from both countries and universities become interested. At least in Mexico not many groups, other than El Colegio and a few institutions, are aware of the potentials for cooperation between Canada and Mexico. We acknowledge that we have to begin thinking seriously of this; on this account, this seminar is playing a very great role. I do not know if this is the same situation in Canada or if much thought has been given to potential areas of cooperation in this field. Maybe Prof. Pollock can later comment on that.

Prof. Edgar Dossman
(CERLAC, York University):

I have a brief question to ask on the energy and the technological papers. They both really refer to the difficult problem of addressing Canadian-Mexican relations because, on the one hand, it is normal and obvious that we share the U.S. and, therefore, the first priority seems to be the focus of a bilateral problem from the perspective of a power relationship in which both Canada and Mexico are, to a very considerable extent, at least potentially, normally on the short end of the stick.

At the same time, looking at Central America and the Caribbean where there are smaller and, generally, even more dependent countries, these same issues of technology transfer, energy, and food are very vital and both Canada and Mexico have interesting relationships with these countries though not, in any way, to develop these at the cost of the North-South paper which is coming. It might be useful to ask Prof. Székely about the use of energy as an instrument of foreign policy and specifically the extent to which the San José facility will continue. In the North the latter strikes one as a very imaginative exercise in foreign policy.

Regarding the question of technology I am a little vague on the implicit difference between Prof. Unger and Mr. Zeman. I would like a return comment by Mr. Zeman on the interesting point raised by Prof. Unger, that is, the extent to which there is a compatibility between the transnational diffusion of the current generation of technology and the ability of middle powers to set national priorities.

Prof. Zavis Zeman
(Institute for Research on Public Policy, Toronto):

I believe Prof. Székely began with some comment on the basic framework and that would be where we do, perhaps, substantially differ. As an observer of the technology scene over the years I have come to think that, whether we like it or not, the technology is a runaway technology and, by and large, I would subscribe to the thesis of Prof. Wiener of MIT. I would go even further and state that when talking about technocrats in the Government and other people who would like to control technology - there is no control: technology is marching at its own rate of change. The schemes to control technology were not very successful and we now have a situation where technology is a global phenomenon and we would be able to marshal some kind of national response which would be that that particular country would just be bypassed. As evidence we can take the Burmese example where they decided to stop being plucked into the world. Over the years we have seen the following: products are being smuggled into the country rather than arriving in the normal crate process.

Somehow my bottom line is that our capability to control technology is much less than we would want it to be. I have to differentiate between what I would like to see and what I actually do see. So we do have some difference in the basic framework of analysis and perhaps there are quite a lot of other things that would follow from that basic premise.

A Mexican Participant:

I must make a slight apology for the heavy tone of my comment, by not taking properly into account what has just been mentioned: that you were presenting this perception of an expert in this technology and how it was generally viewed around the world. What I certainly shall defend is the Mexican position, not taking your message uncritically because you believe in the inevitability of these new technologies taking over, with hardly any possibility of some control by national government or policy makers. This is control from another perspective: it is controlling to prevent giving in just because we have to jump onto the bandwagon. This is where I felt the need to reinforce our national priorities before starting to study anything else.

I shall make a second comment and try to elaborate in more detail on Mr. Pollock's invitation to find out whether there are common areas of research. If we Mexicans decided to jump into the high tech business, it most probably will not be with the Canadians that we would look for cooperation because you are also lagging behind somewhat in the very high technologies. Where then is the common ground on the technology issues? I think that there is an enormous field of what was called low and medium technologies, but I do not wish to go into detail about these. We are talking about very sensitive industries which are going to be there providing our basic needs for years to come. That is where I believe we have the largest reservoir for common studies. In most of these fields it could be that you, Canadians, are in a better technological position than we are. From that point of view it could be fascinating to explore the conditions for getting these technologies from you, Canadians, rather than from the Americans, the Japanese or whomever.

Prof. Theodor Cohn
(Simon Fraser University):

The first comment I would like to make is with regard to the following issue: Are there areas in agriculture for co-operation? It seems to me that there certainly are, the issue is more where those areas are than whether there are areas. One of the issues of importance is how appropriate is the kind of agricultural technology which Canada has, to Mexico's needs? There is dispute about certain issues like the International Maize and Wheat Centre.

Secondly, if the technology that has been offered at this point is appropriate, inappropriate or how appropriate, in what areas does Canada have technology which might be relevant to Mexican needs and also what technical co-operation is possible between the two?

Another issue I would like to mention relates to Prof. Székely's comments about Canada and Mexico getting to know each other. In these sessions an issue that has not come up is the one which relates to the fact that Canada and Mexico deal with numerous issues related to the U.S. Putting aside any issue like an initiative by President Reagan for a North American Common Market which nobody is really thinking about, although maybe Canada has got free trade on its mind, it seems to me that Mexico and Canada are very preoccupied with the U.S. In Mexico there are Mexico-U.S. study centres and, in Canada, we study the U.S. a lot. Where are the common areas where there might be an exchange of information, etc. in dealing with the U.S.? For example, the U.S. Congress has presented problems for both Canada and Mexico and it would be very helpful to get into an area like that.

Another issue is transnational linkages and, at various times, both Canada and Mexico have found these linkages with other groups in the U.S. which have been quite helpful in their relationship with the superpower. A Mexican example would be the case of Mexican tomato and vegetable exports and when there was a danger of anti-dumping duties against Mexico, transnational linkages were quite helpful in this case. A possible parallel, even though there are numerous differences, is the case of lumber exports from Canada to the U.S. and where there was a danger of countervailing duties and they ultimately were not imposed. In both cases there were interests that went across the two borders. Much more should be done with

these common interests and problems with the U.S. because it is the most relevant issue for both of us.

Mr. Cassio Luiselli
(ECLA):

Aside from the specific recommendations on technology which are there I should say that we would love to have much more trade with Canada; with due respect to our American friends we think that the relationship with the Canadian decision-makers is much more easy and friendly, as far as agriculture is concerned. You have a unique agricultural minister and this is recognized all over the world. Canada can do many good things to their food system in Mexico; I should not stress the food security through Canada, that is not the real issue. Personally, food security is first achieved through self-sufficiency within the countries and, secondly, with Latin American countries, as far as Mexico is concerned. With the Latin American crisis we must look to our neighbours in the South, our brothers in the sense that we share many structural features, we believe that Brazil and Argentina are the main partners in this building up of food security for Latin America. This is not being hostile or anything against Canada, I consider Canada as a very important partner not only for diminishing the influence or the amount of trade we have with the U.S. but also because Canada has, perhaps, a more open attitude and we should take advantage of this. I also see an upper trend in the cost of the farm sector and also that the U.S. dollar is constantly going up, Canada can become a very important market for Mexico and vice versa.

A very important and specific issue is to start, right away, a study about the potentialities of the Canadian market for Mexican winter vegetables and fruits. Not only the traditional fruits but this growing and emerging market of tropical fruits such as papaya, mango, chirimoyas, guayaba. There is therefore a huge market to tap. I would also say that we should at least talk about Congress lobbyists and develop this network between both countries as far as the U.S. market is concerned.

We are also going to import grains from the U.S. during the foreseeable future and I do not see any problem in buying more from Canada and a little less from the U.S.

You have also been much more generous than the Americans as far as milk is concerned and much more flexible as far as technology transfer is concerned. Therefore, a second area of joint efforts could be the study of technological transition in the food system. We talk about chips but if we look at this technological revolution in the food system we are witnessing now a transition from the highly energy-dependent, capital intense and highly mechanized agriculture towards more agro-ecological and biological techniques. This is already taking place in the U.S.; Mexico is very well-endowed in these areas, we have an efficient critical group of geneticists at the UNAM perhaps because Dr. Soberón, our Minister of Public Health, was the former Rector of the UNAM and he is a world famous geneticist, he created a critical mass of young and able people in genetic engineering. We have a large beer industry so we know how to ferment. Mexico has therefore the capability of catching up with bio-engineering rather quickly. We are not as far away as in the chip area, we have a Centre of Nitrogen Fixation in Cuernavaca which is being sponsored by the UNAM. So, in this area we can immediately start joint projects for actual studies on certain grains or crops. We need a lot of research on tropical legumes or the tropical ecosystem. It is an area that you could be interested in studying. So there is plenty of room for that kind of research. Do not forget fisheries and our common waters in the Pacific, that is also a very important area for joint research.

Prof. Gabriel Székely
(El Colegio de México):

Fortunately, in the area of Mexican oil export policy in relation to Mexico's foreign policy, we see that Mexico has acted in a more responsible and less emotional way in the sense that it has never talked of an oil weapon or power. Under normal international conditions we have become, over the years, the first supplier of oil to the U.S.; up to a few months ago Saudi Arabia supplied a million barrels per day to the U.S. market and now it is only supplying 200,000. We are also the first supplier of oil to Israel. All the oil consumption needs of Israel come from Mexico.

Furthermore, Mexico has not hesitated to use oil in order to pursue all its foreign policy goals. The San José

agreement is carried on in spite of the fact that it contradicts some of the U.S. views on the region on how to solve these problems. But that has not prevented Mexico from contributing, for instance, to the U.S. strategic petroleum reserve, much to the dislike of Saudi Arabia that opposes it for diplomatic reasons.

Mexico has been able to pursue this San José agreement with Venezuela in spite of the fact that the latter is very frustrated by Mexico's consistent refusal to join OPEC. Mexico instead has followed, in recent months, and I personally fully support this option, a mechanism of consultation with OPEC and other oil exporters on pricing and production policies and this includes countries that are not at all radical in international affairs such as the U.K., Norway and, probably, if we are looking at the '80s, if Canada taps all this oil that we were talking about earlier and becomes an oil exporter, this would be another area in which we would be able to cooperate at governmental level. This, for Mexico at least, is a better alternative than joining OPEC. Mexico has acted under normal international conditions, it has a policy which is very pro-Western and this responds to Mexico's real interest in the international system.

Chairman Prof. John Holmes
(University of Toronto):

I was going to pick up a little bit of conversation on the North American Accord because of the fact that I happen to be one of the few survivors of the one effort of that 1956 Conference in White Sulphur Springs when the Mexican and American presidents and the Canadian prime minister got together for a discussion. Our prime minister was a little suspicious of this, he is a very shrewd man and I think he was quite right. It would probably be interesting to recall the most recent talk. The real reason for this was that President Eisenhower had had two heart attacks and it was necessary to prove that he was quite capable of running in the next election. So it was decided to launch him on the international stage again in the company, presumably, of the two heads of government least likely to affect his pulse. We had quite an interesting exchange of views in White Sulphur Springs.

SECTION 4

# NORTH-SOUTH DIALOGUE

# CANADA, MEXICO AND THE NORTH-SOUTH DIALOGUE: THE NEED FOR AUDACITY

*Prof. Edgar Dossman*
*Prof. David H. Pollock*

## 1. Introduction

The relationship between Canada and Mexico has evolved cordially over many years, but the level of interaction has accelerated noticeably since the 1970s. Mexico and Canada have selected each other as candidates for "concentrated bilateralism." They have signed agreements of economic and political consultation. And spokesmen from both countries speak of the increased official awareness, and diplomatic and private sector contacts during the past several years.

However, the gloomy climate of the 1980s has provided new and additional reasons for an even closer relationship between Mexico and Canada. The profound economic problems of this decade coincide with a resurgence of East-West tensions and a corresponding decline in the credibility of superpower leadership. The North-South dialogue has fallen on barren times, an early and obvious casualty. There is precious little dialogue, while cynicism abounds regarding the package of structural changes which would comprise the New International Economic Order. As for the International Development Strategy for the third United Nations Development Decade, this is now only of antiquarian interest.

Mexico and Canada have both assumed leadership roles during the past decade in the North-South dialogue, most recently at Cancun. Since then the stakes for each of them have grown, globally as well as regionally. Both dimensions require careful study, for while the two countries should not exaggerate their potential influence, Mexico and Canada could with specific initiatives, play a catalyst or in-

terlocutor "Middle Power" (MP) role globally and, simultaneously, within the inter-American system. This would particularly be the case if Canada and Mexico could gather the support of a "like-minded" constituency.

The central theme of this paper will therefore be the need for the emergence of a new "reformist interest" or "Middle Power" (MP) strategy. The latter would come from a group of middle power countries, such as Canada in the North and Mexico in the South. This middle power group would seek to fulfill two important functions, one at the international level and the other at regional levels. At the international level, this new MP grouping could provide a developmental fulcrum of "like-minded" countries to help restore balance in the North-South dialogue. That balance has become skewed and rigidified at present, due to the sharply contrasting extremes of Northern "hard-line stonewallers" on the one hand, and Southern "radical confrontationalists" on the other. At the regional levels, the MP grouping could provide a new security fulcrum in order to help reduce political instability in the different regions (e.g. Central America in this hemisphere) on the one hand, and simultaneously play a think-tank function in seeking new approaches to styles of development, on the other.

## 2. The Global Stalemate

The irony of the North-South stalemate is that the global economic crisis which has been such a significant factor in paralyzing the North-South dialogue, makes new approaches to international cooperation for development all the more urgent. Not since World War II has such a chasm emerged between reliance on temporary expedients and the need for a basic long term restructuring of the global economic system. Three primary factors can be identified in the still-increasing disarray of the North-South dialogue:

(a) The continuing economic malaise, stagnation and uncertainty that has characterized most of the global economy since the early 1970s has not abated for many countries of the world, developed and developing alike. Indeed, the basic economic parameters for Latin America as a whole have significantly worsened during the 1980s as compared to the 1970s. An important consequence of this economic malaise -many would call it a crisis- has been that an increasing number of countries, especially in the North, have begun to

focus bilaterally on narrow issues of national self-interest in contrast to the earlier approaches to multilateralism as a central technique for implementing policies of international cooperation for development.

(b) The second reason for disarray in the North-South dialogue is the sharply differing ideological positions taken in the international panorama of nations, ranging from those who articulate a strong neo-conservative thrust (this being particularly the case for several key actors in the North) and an equally strong radical structuralist ideology (primarily evident in the South). The gap between these two ideological extremes has not been balanced in the slightest to date.

(c) A third reason for the halting performance of the North-South dialogue has been the fact that various elements of the UN developmental system have sought to bridge the ideological gap by providing some kinds of balanced operational or action programmes acceptable to both the North and the South. These efforts have taken the form of trying to evolve an NIEO, various Development Decade strategies, and most recently a global round of negotiations. Regretfully, however, because of the low ebb of acceptance of the UN as a negotiating developmental forum at this particular moment in history, that too has had a deleterious impact on the North-South dialogue.

Taken together, these constraints to the North-South dialogue have had adverse repercussions on all countries of the world -East and West, North and South, capitalist and centrally planned, large and small, developing and developed- but they have unquestionably affected some much more than others. Canada in the North and Mexico in the South are, in particular, very sensitive to "shocks," whether positive or negative, that radiate into them from the international economy. Of course, sensitivity to external shock is a characteristic of most if not all other middle power countries. But there is no question of the extent to which the economic, and indeed the political, fortunes of Canada and Mexico are integrally and significantly affected by the general state of economic health in the global environment.

## 3. Canada and Mexico as International Actors

At first glance, Mexico and Canada are obvious part-

ners in the North-South dialogue, since they share the challenge of living next to the United States, by far the dominant world economy and regional power despite its relative decline since 1945. The salience of a North-South perspective in evaluating the relationship, however, can be seen in the levels of "interdependence" emerging between the two countries:

(a) Global Recession: Unless the major economies of the Third World are revived, the entire industrial world cannot prosper. Canada is a major trading country with a huge percentage of GNP generated by production for export. At this level Canada shares a global concern, but speaks primarily as a member of the Northern club. The sharp drop in trade with Mexico during 1981, and indeed with Latin American countries as a whole last year, provides a clear example of the costs of retrenchment in once buoyant economies (the costs being much higher in Mexico, of course). Similarly, the activities of Canadian export, manufacturing and financial interests in Latin America and the Caribbean reflect a "North" dimension consistent with Canadian membership in the Summit Seven, NATO and the OECD. "Partnership" is built into global relationships, but in the classic sense of the term in the North-South literature.

(b) Industrial Structure: At a second level, however, the question of North-South relations cuts closer to the bone in Canada. The concepts of Canada as the "richest underdeveloped country," or "between first and third worlds," have been around for some time. These concepts have been provoked by the evident similarity in some respects of structures to those found in less developed countries: for example, dependence on resource exports; a weak and fragmented miniature-replica industrial structure; and extremely high levels of foreign investment. Nevertheless, until very recently, concern over Canada's place in the international division of labour did not really question Canada's ranking as a "developed" country. Dependency theory has had little popularity in Canadian development studies.

However, fear that new technologies -particularly in information and communication- are undermining Canada's economic infrastructures and capability, potentially creating a far deeper dependency, is by no means limited to the extremist fringe. The "pauperization of medium powers" (Madec) would work against the interest of NICs such as Mexico, or Canada, unless effective policies of adjustment are implemented immediately.

It is now reasonably clear that major changes in Canadian and Mexican industrial strategy, technology policy, and therefore relations with the U.S., are on the horizon, whether we like them or not. While not underestimating their differences, a "shared vulnerability" creates the need for partnership outside the Brandt commission categories. From this perspective, the rapid evolution of Canadian policy towards the region, centering on recently emerging key bilateral relationships with Mexico, Brazil, Venezuela and now Colombia, is fully understandable.

(c) New Hemispheric Relationships: Considering the factors indicated above, a key element in the evolution of Canadian-Latin American relations has been the changing structure of the international economic and political system in which the emerging middle powers of Latin America, together with Canada, recognized that they now have several shared, or at least compatible, goals in various functional and geographical areas. The term "hemispheric middle power" has come into parlance to describe the potential of this intermediate rank of Latin American countries, plus Canada, in developing interactive patterns in such diverse areas as the Law of the Sea, the new protectionism, organization of international commodity markets, and ODA programmes in the region, among others. A multidimensional relationship, embracing political, economic, technological and diplomatic elements, has therefore emerged, following from and adding to an inherited emphasis on the two traditional economic parameters of trade and investment.

The extended debates in Canada during the last two years, most notably before the House of Commons subcommittee on Canadian-Latin American and Caribbean relations, dwelt particularly on the "emergence" theme. This emphasized the international rather than merely regional roles of countries such as Mexico and Brazil, and Canada's emergent relationships with these nations. Thus, as the region has intensified international linkages of all kinds, Canada has had to address much more carefully the foreign policy and security interests of Latin America and Caribbean states. The policy of "concentrated bilateralism," and the 1981 decision to accord priority status in Canadian foreign policy to the Caribbean region reflect these new realities.

(d) Regional Security: A fourth level of significance in Canadian-Mexican relations from a development perspec-

tive lies in the subregional crisis in Central America and the Caribbean. Canadian political relations with the Caribbean are close, and the emergence of a new sizeable and vocal constituency in church, academic and business circles involves Canada in the security/development debate lying at the root of the crisis. Canada also has security interests in the area. Clearly an external power with modest leverage, Canada nevertheless has emerged as an actor in the region. Mexico, of course, has equal if not greater interests in the outcome of the crisis, as described by Ojeda and others.

Thus Canada and Mexico share two experiences in the so-called Caribbean Basin. First, both countries have entered into extensive development cooperation agreements with the many small countries of the region. The San José facility, for example, even in somewhat diminished form, provides an admirable example of enlightened and generous North-South action. Both countries exchange information on programmes. Both countries participated in the CBI (with similar orientations). Both countries have different areas of concentration and expertise, as well as linkages with the region. For both countries, the Caribbean Basin has become a priority in terms of development work.

Second, Canada and Mexico share essentially the same North-South premises on the origins of the Central American crisis and potentially similar instability in the Caribbean. From Canada's vantage point, geopolitical concepts of delayed hemispheric unity and manifest destiny under Washington's "Neighbourhood Watch" appear remote, distorted and counterproductive. Here again, the predicament of middle powers' status provides a common understanding between Canada and Latin American partners regarding the security/development debate. Regionally, the economic and financial crisis of Latin America is compounded by a U.S. preoccupation with bipolar security issues rather than with multilateral development. Inter-American relations are in disarray; the future of Central America is bleak. Beyond Central America, the destabilizing effect of conflict on the surrounding middle powers and NATO, as well as the deterioration of U.S.-Latin American relations, are ominous developments. Canada therefore is increasingly concerned about conflict resolution in Central America which at the same time does not damage bilateral relations with Washington. For both Mexico and Canada, the facts are that the U.S. must be part of the solution as well as part of the problem.

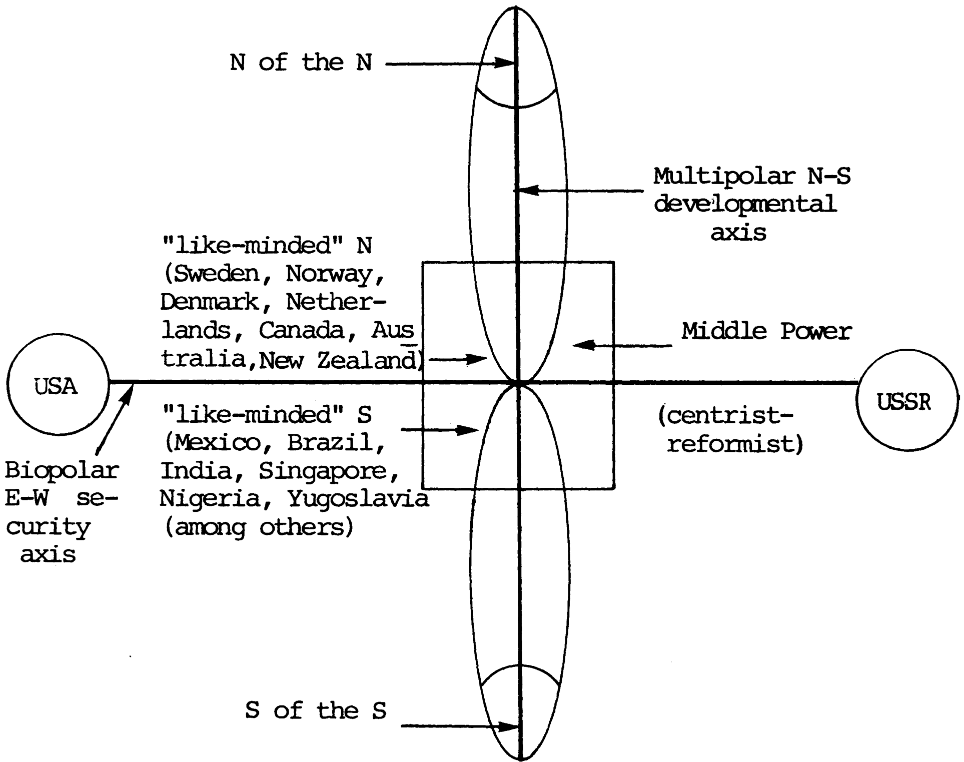
In short, Canadian-Mexican relations are complex and interrelated with important agendas at the global, regional and bilateral levels. It is now important to explore alternative approaches for reviving a North-South dialogue.

## 4. The North-South Leadership Dilemma

The central problem confronting the revival of global negotiations is the lack of political will among the principal Western economies and transnational actors. This is apparent in the debate over Third World indebtedness. Numerous reforms are proposed, which are rejected in favour of bilateral short-term measures. In particular the U.S. is not currently in a helpful mood, neither the Congress nor the Reagan Administration.

Nevertheless, a diplomatic opening should not be considered hopeless. First, numerous U.S. officials, lawmakers and businessmen realize that powerful long-term national interests are at stake in reigniting growth in the major Latin American economies, as well as in other Third World countries. Second, within the European Economic Community there is widespread opposition to U.S. fiscal and monetary policy, which (in members' opinion) effectively prevents recovery by financial outflows to the U.S. resulting from its high interest rates. Moreover, with more vulnerable trade-dependent economies, the European nations have generally demonstrated greater flexibility than Washington toward the liquidity crisis in the Third World. But it is far from clear that countries so committed to the _status quo_ will initiate change without a great deal of prodding.

It is this situation which suggests the importance of some initiatives towards a new "MP strategy": e.g. with middle powers such as Canada and Mexico taking greater initiative in mobilizing a constituency in support of those major institutional changes which could be in the interest of all, but which will require long, and painful diplomatic work and which, after years of thankless labour, such as the Law of the Sea Conference, might yet be jettisoned by a superpower. Such a bridge-building role, however difficult, is a responsibility that the middle powers cannot easily avoid. Such a grouping of countries might be illustrated schematically as follows:




For much of the postwar era, the two superpowers have viewed the world as though it were designed on a horizontal East-West security-oriented axis. In this conception, countries, developed and developing, were spread along this axis in some rank order based primarily upon their political closeness to one or another of the two giants. The developing, nonaligned countries conversely preferred to view the world on a vertical North-South development-oriented axis, in which countries all fell into "North" or "South" umbrellas, rather than being spread along the axis. The tactic of the developing countries, of course, was to shift the horizontal axis slowly but surely upwards to a vertical position.

Over the past three decades, however, countries of both the North and the South have in fact begun to spread themselves up or down the vertical axis. Those in the "north of

the North" have tended to take a cautious and very conservative approach to policies and practices of international cooperation for development, stressing bilateralism to the maximum degree possible as a technique, and economic liberalism as the philosophical underpinning for both international and national policies. Those in the "south of the South," conversely, have typically taken a sharply different stance, stressing multilateralism, strongly interventionist policies internationally, and equally strong dirigiste policies at home. Each of these two extremes has typically sought -with exceptions, of course- to obtain "unconditional surrender" rather than "peaceful coexistence" with the other extreme, as the North-South dialogue evolved. But our current focus is rather on those that are "south of the North" (e.g. Sweden, Norway, Netherlands, Canada, Australia: the so-called "like-minded" countries) and those that are "north of the South" (e.g. Mexico, Brazil, Singapore, India, Nigeria) that have come closer together on certain specific programmes as well as on the general conceptual approach of global economic management. It should be added parenthetically that the UN Secretariat (especially UNCTAD and the Regional Economic Commissions) and certain UN specialized agencies (especially the Bretton Woods Twins and GATT) have also played an important technical role in preparing background documentation that is, in general, attuned to the "reformist-centrist" orientation of these MP countries.

What is sorely needed now -especially since the world economic horizon is still so bleak- is for the "like-minded" countries of both the North and the South to rethink global policies of cooperation for development insofar as those policies affect international flows of goods, financial transfers and technology. Most of the following North-South objectives would win support from the emerging middle powers:

(a) Trade Policy:

(i) Basic Commodities: short-term commodity price instability should be attenuated to some degree, as should a significant long-term deterioration in the terms of trade. These goals might be sought by commodity market organization, or by compensatory financing facilities, or by both.

(ii) Manufactures: access to markets should be sought and, as a corollary, protectionism decried. Additionally, domestic processing should be encouraged, to add value to exports at home.

(b) Financial Policy:

(i) Public Funds: long-term capital flows should be maintained at some desired threshold level, with flexible terms and conditions, especially through the IBRD and IDB. Short-term liquidity and exchange rate stability should be sought, especially via the IMF.

(ii) Private Funds: every effort should be made to maintain the net flows of private funds at some minimum level, with appropriate terms and conditions. There is a need to effect an appropriate balance between public and private sources of funds. And above all, to seek out new approaches to private debt restructuring.

(c) Technological Policy:

Codes of conduct are needed to assist in bringing about a more stable, reasonably priced and "appropriate" mix of international technology transfers. Additionally, a growing volume of R & D should be done in, by and for developing countries.

Canada and Mexico may not necessarily agree with all the policy objectives listed above, nor necessarily with all the particular instrumentalities and institutional mechanisms that should give form to those policies. But they are in agreement with most, precisely because of the openness and vulnerability of both Canada and Mexico to international economic "shocks."

## 5. Regional Initiatives

The immense complexity of generating meaningful global negotiations, such as for example, a new Bretton Woods Conference, suggests the need for Canada and Mexico to consider specific regional (including bilateral) initiatives. These could address, or at least begin to deal in a practical way, with many urgent issues without compromising global solutions. Indeed, any signs of life, even at a regional level, would help restore faith in the North-South dialogue as a whole.

Specific initiatives would also confront Canada with decisions as well as declaratory policy. Some observers have argued that there is inconsistency in the Canadian position on the North-South dialogue between the level of rhetoric -as, for example, during Trudeau's passionate Mansion House speech of March 1975- and the level of action

as, for example, in the area of protectionism.

In any case, the focus becomes much sharper at the regional level in North and South America. There is a large and growing role for regional middle powers (MPs), to provide new directions and even leadership at two policy levels, namely:

(a) Policies pertaining to security: i.e. to bring about a better balance as between (i) those who see political instability in the Third World as originating fundamentally from East-West geopolitical rivalries, and therefore who believe the solution to such instability lies primarily in the military realm, and (ii) those who, on seeing instability, assume it has a North-South origin, based on poverty and disparity, and therefore its prescription is geared to developmental policies.

(b) Policies pertaining to development: i.e. in the latter context, to bring about a better balance between extremes of those who (i) place a heavy emphasis on the "magic of the market" as versus a command economy, and those who (ii) emphasize global interdependence (ever-closer North-South economic linkages) as versus those who feel the long-term solution to Third World foreign exchange bottlenecks lies fundamentally in selective re-linking to eventual South-South cooperation (collective self-reliance).

(a) Security

At the political/security level, a strong case can be made for the need to develop an MP strategy, especially (though by no means exclusively) to help resolve the current Central American strategic problems. The intent would be to provide a "Third Force." Historically, power relations in the hemisphere have been predicated on a very asymmetrical grouping (one large country versus many small ones). The new idea would be to evolve a more symmetrical power balance (one large, several middle powers, and many small). The intent would not be to create a pre-programmed "naysayer" vis-à-vis the U.S.A., but rather a bridge-builder or interlocutor grouping. To begin, the Contadora group (perhaps amplified by Brazil and others) could be strengthened by a more precise offer of political linkage by Canada (perhaps further amplified by Spain).

The objective would be to share security responsibilities with countries of the region, and away from unilateral U.S. action, while evolving a cooperative security frame-

work which would permit alternative development models, as required in the region. It would also mean strengthening SELA and similar Latin conflict resolution forums rather than joining the OAS as a full member. The emergence of some new form of Latin and Caribbean grouping would create a regional political bloc much needed as a counterweight to a continuing U.S. "hegemonic presumption." The issue of OAS membership is important if only because it has become something of a _cause célèbre_ in Canada. The argument against joining _is not that_ Canada should weaken its linkages with Latin America and the Caribbean - quite the opposite. Rather, joining the OAS in its present form would hinder the evolution of the relationship. The relevant questions are as follows:

(1) In the first instance, is the OAS the level of hemispheric organization to concentrate on at this time? Is an inter-American focus for development the most appropriate one at this stage in history, i.e. given the internationalization of the Latin American economy in the postwar period and considering the deepening crisis in inter-American relations?

(2) Could Canada "bore from within" -that is, join the OAS in order to change the basic rationale- from a security to a development orientation, with the attendant condition of universality? This would most likely be a labyrinthine exercise in frustration if not futility, considering the internal dynamics of the OAS.

(3) Could Canada stay out of unpleasant traps into which it would almost certainly fall (such as, for example, the Venezuela/Guyana dispute; problems resulting from open violation of the Charter)?

(4) Should Canada accept a quasi-military role in the region, which would result from full membership? Canada is not Barbados; it could not, or at least it should not, accept full membership and the Bogota Charter and not agree to subscribe to the Rio Treaty.

(5) What are the opportunity costs of OAS membership, considering the financial and manpower-talent problems in Ottawa vis-à-vis Latin America?

(6) What precisely would Canada gain? What exactly would full membership mean in terms of new avenues for economic cooperation?

Given the fact that important long-term interests are clearly at stake in Latin America, Canada should develop a coherent security policy, but within a framework that transcends the traditional military orientation. Canadian

Third World defence policy has been premised on traditional "North" assumptions regarding security: e.g. access to important sea-lanes of communication; the stability of sources of exports and imports; and concern over Soviet penetration. In contrast, very little analytic capability exists to deal with the relationship between social and institutional change on the one hand, and military threats on the other. A North-South approach to conflict resolution is inseparable from Canada's long-term interests with regional powers, and much more should be done to understand the security objectives of Latin and Caribbean countries, as well as those of the U.S. Indeed, a North-South approach is inseparable from long-term NATO interests as well. The need for major institutional change and different models of development will require a basic change in traditional U.S. geopolitical concepts in the region, in favour of strategies of accommodation and partnership, and greater regional participation in security. As always, Canada must recognize the low level of its influence in the region, without of course understating it either. We cannot solve the Central American crisis; we cannot reform the OAS. But we can move coherently in the right direction.

(b) Development

(i) Concept Innovation

At the developmental level the options are clearer, ranging from concept innovation to greater cooperation in ODA. Given the postwar Latin American economic experience, a strong case can be made for the need to evolve some new MP strategies or "styles" of development; of the model itself, as that model has been evolving in Latin America during the past three postwar decades. In so doing, three main issues, among others, could fruitfully be explored, namely:

(a) the emphasis on "apertura" or interdependence (i.e. a continuation of the North-South approach to policies of international cooperation for development) as versus collective self-reliance (i.e. "de-linking," to an enhanced degree of South-South cooperation).

(b) the need to find an amalgam between an optimal degree of economic liberalism ("magic of the market") as versus a strong centrally-planned economy or command economy (<u>dirigisme</u>).

(c) a shift from largely favouring the upper strata high-consumption to a greater stress on social welfare and

equity for all. As Dr. Prebisch has repeatedly stressed, there are important contradictions between the capture of the economic surplus by Latin America's upper strata for purposes of conspicuous consumption rather than for productive social investment. There is an inferential link with repressive military regimes here. Thus Prebisch argues that this distorted model of development does not merely rest on social disparities: it is based upon and perpetuates them.

To aid in concept innovation, it would be worthwhile to explore the possibility of establishing a new Mexican-Canadian Centre to undertake research activities along the broad conceptual lines laid down above. It should essentially have "think-tank" functions and be small; i.e. designed primarily to draw upon the combined intellectual capital of existing academic centres in Mexico and Canada. It should preferably be located within a Mexican university, with linkages to universities and institutes throughout Canada, and with a coordinating body.

There is a deep pessimism about the future of Central America. As the general conflicts in that subregion grow, there is less and less discussion of development and more and more armaments. Mexico and Canada could play a meaningful role in reviving a belief in the future by allocating funds for a major study -by and for Central Americans only- of the development needs of the subregion under various assumptions of a return to stability. Such a major project could build on the work of existing regional secretariats -e.g. CABEI, SIECA, IDB, ECLA, OAS- and would include all countries of the Isthmus. It would be a mini-Marshall Plan concept, shorn of cold-war connotations.

(ii) Debtor Information Service for Central America

While a "debtors' OPEC" is probably unrealistic for all countries of the region, the small, vulnerable countries of Central America might jointly benefit from the utilization of a small secretariat -again drawn from the secretariats mentioned above, plus CEMIA- to gather and share basic information on the volume, sources, and terms and conditions of their international borrowing. However different in ideological persuasion, the governments of the sub-urban region might find a "Debtor Information System" of particular value to them, and a tangible effort towards increased cooperation rather than polarization, as was recently suggested by SELA and ECLA.

(iii) The Mexican Debt

Undoubtedly the most dramatic catalyst for reviving the North-South dialogue would be the conversion of the public and private Canadian portion of the Mexican debt into a genuinely manageable structure of medium and long-term commitments. Even more than central issues such as trade access and the provision of import credits (important as these are), new ways of dealing with the Mexican debt on a realistic basis would help to attenuate one of the gravest threats hanging over the international economy. Within the Canadian-Mexican bilateral framework, such an initiative is theoretically feasible. Whether in practice such a renegotiation could be accomplished is another question; i.e. it would involve a shared burden between the banks and the government, and might therefore be resisted, at least initially, by certain public and corporate leaders. Yet as Lord Harold Lever and others have recently argued, unless breathing room for economic recovery in the Third World is achieved by action of the industrial countries, the private banks may never be fully repaid.

## 6. Conclusion

This paper has sought to make two main points, namely that the emergence of a new group of MP countries -or several such groups- could play a useful role in the future; one at the global and the other at the regional level. At the global level, the role would essentially be to provide a renewed stimulus to a stalled North-South dialogue, hopefully as a result of the converging interests of "like-minded" countries from both North and South. At the regional level, the role would be both to facilitate agreement on political/security issues (that currently involve or create great power geopolitical rivalries) on the one hand, and to rethink specific hemispheric policies and practices, as well as to analyze new developmental styles (models), on the other.

For a variety of reasons, Canada and Mexico could and should take the lead in making a start on this concept of a new MP strategy. In so doing they would benefit themselves, this hemisphere, and conceivably the global system as well.

# A REFERENCE MEMORANDUM ON THE NEW INTERNATIONAL ECONOMIC ORDER AND THE NORTH-SOUTH DIALOGUE

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El Colegio de México

"It is possible to know the price of everything and the value of nothing." Oscar Wilde

These are days of great uncertainty. Nuclear conflagration, irreversible ecological damage, overpopulation and famine, all pose terrifying threats to the survival of mankind. The above is not an ideological statement, but an appraisal of where we stand today.

In such a complex situation facts are grasped fragmentarily, in spite of the spectacular progress in information technologies.1/ Receptions are not only partial, but dif-

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1/ Elias Canetti has characterized the new reality as different from the past in three basic forms: it has increased, it is more precise and incorporates the future. (Elias Canetti, "Realism and New Reality" in The Conscience of Words, New York, The Seabury Press, 1979, pp.55-59). The variety, complexity and amount of new information is unprecedented. The past is recovered all over the world; mountains of new objects are created daily; there are more human beings on Earth than ever before. The splitting of matter, biogenetics, the inquiry into the cosmos, electronics and computers, all are based on a technology of the exact in which time acquires new significance. The future is cracked and ever-present is the threat of nuclear war and the hope for fresh utopias implicit in economic planning and in the increase in systemic approaches. Therefore, everything points towards globalness, linkages, connections and overall perceptions; the responses to this gigantic challenge can hardly come from worn-out ideologies. (See Jorge A. Lozoya, "Ship of Diplomats. United Nations North-South Negotiations in the Seventies" in Forum for Correspondence and Contact, New York, International Center for Integrative Studies, V.12, N.4, July 1982, p. 113.)

fer greatly between individuals and groups, as well as according to a person's immediate point of reference in space and time.

New socioeconomic realities evolve constantly, while appropriate analytical tools are not yet available. Hence the fear arising from the apparently irrational nature of social, economic and political phenomena, when observed over limited periods and in particular spots of the planet.

A new holistic (gestalt) paradigm is appearing in the sciences, based upon the development of post-quantic physics, nuclear war logistics and the philosophy of systems.2/ However, its application to socioeconomic events is still rudimentary. A paradigmatic change will be essential for the understanding of global negotiations such as disarmament, pollution control, the Law of the Sea and the New International Economic Order (NIEO).

Since 1974 I have been a concerned observer, hopping around the cradle of the NIEO. Ervin Laszlo and I designed and coordinated a worldwide network of research teams that laboured for two years trying to identify obstacles to the establishment of the NIEO. Our report was submitted to the 1980 United Nations General Assembly and later published in 16 volumes. Considering that it is highly improbable that anybody, except Laszlo and myself, ever read such an encyclopaedic work, I will summarize some of my personal conclusions on the matter, enriched by further developments in the North-South dialogue.3/

I. The NIEO is a global programme of action intended to regulate international markets, and not an ab-

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2/ See Ervin Laszlo, Introduction to Systems Philosophy, New York, Harper Torchbooks, 1972; Fritjof Capra, The Turning Point. Science, Society and the Rising Culture, New York, Simon and Schuster, 1972.

3/ For a general bibliography of the NIEO as well as for the basic approaches to it, see: Jorge Lozoya, Jaime Esteves, Rosario Green, Alternative Views of the New International Economic Order, New York, Pergamon Press, 1979. For a summary of the Report by our network, see: Ervin Laszlo, Jorge A. Lozoya, et al., The Obstacles to the New International Economic Order, New York, Pergamon Press, 1980.

stract and rhetorical argument.4/ It is based upon the assumption that the so-called free forces of the market, if they ever existed, have by now disappeared from the international scene. Worldwide economic transactions are constantly manipulated in ways unfair to the less developed countries (LDCs), due to highly asymmetrical power relations. Increasing protectionism applied by rich countries, as well as the unilateral expansion of transnational corporations, strengthen this perception and hence the need for jointly negotiated regulatory measures.

II. The NIEO is a long-term venture. The protracted nature of the negotiations should constantly be kept in mind. The short-term criteria of the mass media are of limited use in the tactical appraisal of NIEO and tend to underestimate the relevance of the process. NIEO negotiations are irrelevant for the TV evening news. This is probably inevitable, even though all efforts should be made to provide the mass media with information on the subject (see below).

III. The future establishment of the NIEO is organically linked to its holistic identity. Partial negotiations are to be considered as tactical measures, leading to the attainment of global objectives. This assertion is not the result of a dogmatic inability to redefine targets. The emphasis is on the process, more than on any of the specific goals.

IV. The North-South dialogue is a bargaining mechanism of the NIEO. Its efficiency refers directly to its subsidiary role vis-à-vis UN global negotiations. Any manipu-

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4/ The Declaration of the Establishment of a New International Economic Order, is an official UN document approved as a General Assembly Resolution (3201. 2229th Plenary Meeting, 1974 General Assembly). The Programme of Action on the Establishment of a New International Economic Order, is Resolution 3202 of the same Plenary Meeting. See, Ervin Laszlo, Jorge A. Lozoya, *et al.*, *The Obstacles...*, pp.104-118. The NIEO Resolutions should be considered today within the context of a complex set of UN documents and institutions. The Charter of Economic Rights and Duties of States provides a legal framework; UNCTAD an economic forum, the Group of 77 a political lobby, etc. The basic concept is Global Negotiations, as understood by the UN General Assembly for a number of years and as stated in its Agenda for 1983.

lation of the North-South dialogue against the consensus reached at the UN General Assembly will doom it, regardless of partial individual gains by any of the LDCs directly involved in the North-South dialogue.

V. The NIEO and the North-South dialogue concern mainly the market-economy countries, as long as the socialist nations (the East) indulge in the egotistical delusion that these negotiations are nothing but a historical product of colonialism and imperialism, an attitude with strong implications for the East-West confrontation.

VI. NIEO and North-South dialogue issues relate to the East-West confrontation every time that the superpowers want the LDCs to act in accordance with their hegemonic global plans.

Nonalignment is a sine qua non feature of the NIEO and the syncretic nature of the process essential to its success. All attempts to turn the NIEO into a political or economic weapon against the North, and especially against the United States, should be resisted. Irresponsible LDC governments intending to unilaterally bend the course of NIEO negotiations dramatically increase the risk of nuclear confrontation and end up generating great suffering for their peoples, as well as gross ecological damage, through so-called "localized warfare."5/

VII. For the establishment of the NIEO, it is essential to restructure the United Nations, in order to improve its administration and conflict management capabilities. It is also important to open the organization to social entities other than governments (unions, youth organizations, women's movements, churches, opposition parties, minority groups, etc.) to achieve a larger consensus as to the validity of the UN in the construction of the future.6/

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5/ See Roger D. Hansen, Beyond the North-South Stalemate, New York, McGraw Hill, 1980s Project/Council on Foreign Relations, 1979. For an inquisitive analysis of the conceptual bases of NIEO as it relates to ideologies, see the excellent document: Joseph Hodara, "The Ideological Roots of the New International Economic Order," The David Horowitz Institute for the Research of Developing Countries, Tel Aviv University, Paper 4/82 (mimeo), July 1982.

6/ See Jorge A. Lozoya, "Ship of Diplomats" and the highly critical and stimulating Miguel S. Wionczek, "A Diagnosis of Failures and Prospects," in Ervin Laszlo and Joel Kurtzman (eds.), The Structure of the World Economy and Prospects for a New International Economic Order, New York, Pergamon Press, 1980, pp.47-67. A recent and creative discussion on the future role of the UN is reported in The United Nations: Conflict Management, Effective Administration, Muscatine, Iowa, The Stanley Foundation, 1983.

VIII. The advancement of the NIEO is unattainable without the further democratization of LDCs. Even admitting to the partial autonomy of international relations, it is demagogical and false to argue that changes abroad are independent of social improvements at home. At this level, the holistic condition of the NIEO restates its basic qualities. The access of nongovernmental organizations to the United Nations should be parallel to the democratization process in LDCs.

IX. LDCs will have to create alternative futures for themselves. The road of "development" is a dead end. The crisis of the prototypical East and West ecosocial models should stimulate the search for new paths in the South. "Underdevelopment" is not a stage previous to "development"; they are contemporary phenomena. There are not enough resources available in the planet for all LDCs to achieve surrogate industrialization, even if the non-existent political will of rich countries were to materialize in a utopic massive transfer of resources and know-how.

X. The NIEO interlinks with the perceived need by many people in the North to modify their socioeconomic patterns of behaviour. LDCs must increase contact and strategic understanding with social forces and organizations in the North sympathetic to the cause of the NIEO, especially those searching for alternative ecologically oriented life styles.7/

XI. The search for alternative life styles in LDCs requires deep and permanent transcultural contacts, within every country and among nations. The struggle for the NIEO at the United Nations has to be understood in an "equality within diversity" context, regardless of how threatening, in the short term, the process may seem to the defenders of _status quo_ values.

XII. The social goals of the NIEO (health, education, housing) will not be reached without a deep formulation of economic concepts (industrialization, role of money) and the creation of technologies (energy, food) oriented towards a new understanding of human labour and of the interaction between man and nature. Several areas of the Third World (Latin America, Middle East, North Africa, Southeast Asia) have the human potential and the natural resources required for this quantic jump in their socio-

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7/ See Ian Miles and John Irvine, _The Poverty of Progress. Changing Ways of Life in Industrial Societies_, Oxford, Pergamon Press, 1982.

economic process. It is in this context that South-South cooperation achieves its most creative proportions.8/

XIII. LDCs will have to implement extensive reforms in their educational systems and mass media, in order to make the population aware of the dimensions and nature of the challenge implied by the NIEO.9/ Research and higher education institutions should increase resources devoted to global, interdisciplinary and systemic-oriented studies.

XIV. At the United Nations, an enlarged membership (the LDCs) constantly introduces new bargaining procedures and discourses, alien to nineteenth-century Western diplomatic traditions. Different conceptual bases and accountability relationships between governments and peoples generate an extremely complex environment. Good faith, imagination, expertise and hard work are needed to channel these often contradictory forces away from armed confrontation and violence. Everybody has a role in this task if he or she wishes to assume it. "Think globally and act locally" is a good motto for those patient enough to be optimistic, without being irresponsible.

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8/ The realization of the enormous potential of Third World regions is not, by far, a generalized phenomenon among its political, academic and intellectual leadership. In the case of resource-rich Latin America, there are strong taboos keeping many people tied to the dependencia outlook, today a self-denigrating view of the future of the continent. For an exceptionally innovative and positive conceptual redefinition of goals and means for Latin America, see a document that, alas! has received very little attention: Victor Urquidi, Vicente Sanchez, Eduardo Terrazas, "Latin America and World Problems," in Journal of Interamerican Studies and World Affairs, v.24, No.1, February 1982, pp.3-36.

9/ See Jorge A. Lozoya and Haydee Birgin (eds.), Social and Cultural Issues of the New International Economic Order, New York, Pergamon Press, 1981.

# DISCUSSION 9/27/83 SECOND SESSION

Chairman: Prof. Víctor L. Urquidi (El Colegio de México).
Section 4: "North-South Dialogue."
Two papers were presented: the first by Prof. David Pollock from Carleton University together with Prof. Edgar Dossman from CERLAC, York University, and the second by Prof. Jorge Alberto Lozoya from El Colegio de México.

Prof. Edgar Dossman at the end of his paper added the following footnote:

Yesterday, I defined myself as a wistful optimist; I would like to add a third word: a wistful, frustrated optimist. I am so concerned that we see, in both the East-West security problems and the North-South development problems, so many facets of the problems that we are almost getting a full feeling of helplessness. This paper was an attempt to come up with some specific institutional and policy suggestions that certainly are desirable and might even be feasible.

Amb. Carmen Moreno
(Mexican Ministry of Foreign Affairs):

To try and comment on both papers is quite difficult because they are both stimulating, with new concepts, ideas and different materials. I will try to be as brief as possible and to concentrate on the North-South dialogue.

We have heard here several very interesting things: first of all, the concept of the North-South dialogue and the role that Mexico and Canada can play is a very important element in the coming negotiations for the New International Economic Order. We have witnessed and have had the chance to collaborate in some of these concrete efforts and I can assure you that they have been very helpful. Both Mexico and Canada, as everybody has said here, can be, in their own groups, more understanding of the ways that the problems are to be stated. We, between us, have been able to bridge some of the conflicting elements in very many instances. Everybody has spoken about the Cancún experience in which Mexico and Canada played an important role. I can assure you that it was a Mexican and Canadian diplomatic effort that was the origin of the joint presidential communiqué in which some of the issues were at least reflected. Everybody knows that this was a very difficult meeting because it was the first of its kind and the level of political personalities and the exposure to the mass media was constant. Therefore, it was not easy to get down to solving the issues but, at least, having two days of full discussion on development was helpful — that is what our conclusion is after these years.

The other example I would like to mention is the last UNCTAD meeting, where Mexican and Canadian diplomats really were at the heart of the compromise that finally made for the achievement of these so-called programmes of development and recovery of the world economy. It was a Canadian Ambassador, Larry Smith, who was a spokesman for Group B in the item, the most difficult one in the conference. Difficult in the sense of conceptual change in international organizations, which is not so advanced as conceptual change in the academic community. But we are looking for small advances in the conceptual changes whilst trying to achieve a New International Eco-

nomic Order. The negotiations carried out within Group B tried to state that there was an economic crisis and not only a small recession; this was one of the main issues that came up. Some countries did not even accept an idea of an economic crisis, and, naturally, it was impossible for the G 77 not to accept that they were living through an economic crisis. As absurd as this would seem, it was one of the big issues in this document.

The role that was played by Canada and Mexico really makes me look in a very conscientious and optimistic way through Profs. Pollock and Dossman's ideas. We, Mexico and Canada, can really play some positive role in the future, especially in the future of international organizations. When we read the statements of ministers or under-secretaries in the international organizations, coming from Canada or Mexico, we see that some of the paragraphs are very much alike. We share many common objectives, one especially has been mentioned in these discussions: that is the strengthening of the UN. We, as it was said yesterday, really consider the UN to be an instrument which arranges international life, and we both have been trying to strengthen it. The role that we can play, not only in this coming General Assembly but in the future, in restructuring the social and economic urgencies of the UN is very important. We tried an initiative in ECOSOC which was not very successful because new ideas or, perhaps, old ideas just put forward in a new way, are sometimes very challenging and upsetting to everybody. Therefore, decisions are deferred. We shall have a strong responsibility trying to reorganize this whole system of institutions that has become a real burden for some of our countries.

There are very many ways in which the restructuring of the international organizations is dealt with. The main element in which we could definitely cooperate would, perhaps, be the way in which we see the organizations. We do not see them in the same way as the superpowers do, and this common middle ground will help a lot in bridging compromises on these. The idea of trying to have special initiatives, as Profs. Pollock and Dossman said, in the regional sphere is a very interesting one and it really merits exploration.

In the Latin American context we have been trying to coordinate efforts, especially the political effort of Contadora. In the economic sphere, in SELA, the es-

tablishment of a committee of action has just been approved. This committee would support the social and economic development of Central America, and would have, as one of its main trusts, the developing of new ways of approaching the international community and obtaining new flows of resources for the development of Central America, with no political strings attached. The idea is to have some sort of neutral mechanism that will be mainly for the purposes of identification, as has been mentioned here. The Central American countries are the ones who are going to identify their own necessities. There is already one document that has been elaborated by them; it was produced for the meeting of the Central American Countries and the Economic Community held in Brussels last week. These documents, elaborated with the help of ECLA, state many general preoccupations of Central America. In this process Central American countries have, for the first time in this difficult situation, met together and elaborated a common statement on economic policy. Unfortunately, the mass media does not get this news; this progress is not interesting enough for the news. This is a small effort that is being made in the Central American region which can be very much improved if resources are made available through the Inter-American Bank, the ECLA and any institution involved in the region. The idea is to have everybody concentrate their efforts on certain issues.

One of the first issues on which they are trying to concentrate is to devise a mechanism to help Central American countries to maintain their historical levels of trade; because, due to the fact that they do not have enough foreign exchange, they have had lots of problems in compensating. Several ideas are being studied such as trying to increase the time of payments or trying to change or obtain some credit for that compensating facility on trade so as to keep the regional trade going. That is one of the main problems and it is very interesting to see that at the hemispheric level some positive action could be taken. I really have my personal doubts, and I shall not enlarge on them, about the situation in which the OAS now finds itself especially since it has not played a really important role in the North-South dialogue and in economic issues.

The items that Profs. Dossman and Pollock identified as some of the ones in which Mexico and Canada could and

should work together do not seem to cause us any problem, except when we try to pose more precise questions; for instance, trade policy in basic commodities; should short term commodity price instability be attenuated to some degree and, if so, how? That is the main problem; we are trying to increase the price of coffee, most Canadians will not like that but it is going to be one of our negotiations in London this week. The reason for this is that somebody there is trying to put a lower price on coffee and it is our main export in commodities, we cannot really afford to lower the price. There are other products in which cooperation is very difficult, such as cotton. Efforts are being made in the Institute of Cotton to increase consumption of this product; we encounter other problems there. When we try to break it down into more practical elements we encounter more problems, although in our bilateral relations we have been quite successful in bridging all these differences.

On the point of technological policy, I would like to bring up the idea that it is not only codes of conduct that are needed. What we need is a totally new approach to technology sharing. We have been trying to get a new code of conduct on transfer of technology in UNCTAD for the last ten years. Some five paragraphs are holding us up which deal with the transnational corporations' code of conduct. These same paragraphs give us problems with the charter and the NIEO. Questions of sovereignty arise when it comes to transnational corporations abiding by local national laws. We have reached this point in the code of conduct on transfer of technology. The technical issues have more or less been taken care of, but the code of conduct has not been approved, even if it has been accepted that it is not going to be placed on an obligatory, but on a voluntary and provisional basis. It has not been possible to finalize it because of all the legal problems. So that is the point at which developing countries are now.

Therefore, what we need is a totally new way of sharing technology, perhaps through joint ventures on research and development. Recently there was a meeting in Spain trying to establish an International Centre of Excellence in Biogenetics and Biotechnology; unfortunately no developed country, not even Canada, participated except for countries like Spain and Italy. That was very sad but what we need is to keep trying and not allow our-

selves to be overcome by frustration. We must try to come up with new imaginative ways of presenting the possibilities of cooperation. Confrontation should be eliminated from the table of negotiations whenever possible. Fortunately in the North-South, Canada-Mexico this confrontation does not arise.

There are many interesting questions that should be elaborated upon. Mr. Lozoya proposes many interesting ideas, also, and, naturally, being part of El Colegio, I share some of his thoughts and preoccupations. I also believe that we can achieve the NIEO, perhaps in the long run, but we have to do something in this field.

Just as an example of how difficult it is I brought some of last year's General Assembly resolutions. I have one that was very difficult to negotiate, it was the last one approved in the Second Committee. If you read it you will find that it does not say anything. It is called "The Immediate Measures in Favour of Developing Countries," it was adopted in the middle of the economic crisis. It has two paragraphs that gave lots of problems to the developed countries: one is the preamble and the other is an operative.

The preamble paragraph says:

"The General Assembly is convinced that the structural economic problems facing the development of the developing countries require solution through a restructuring of international economic relations within the framework of the establishment of the New International Economic Order."

It has four operative paragraphs:

The first one says:

"It agrees that concrete immediate action to benefit all developing countries should be taken on the pressing economic problems which present a short term threat to the international community."

The second one:

"affirms that in order to create favourable conditions for the development of developing countries, developed countries should take effective and concrete measures to complement the efforts of the developing countries to meet the problems resulting from the world economic crisis."

The third one:

"calls upon the international community to take immediate measures in the areas of critical importance to developing countries."

The fourth one:

"reaffirms that the present world economic crisis and,

particularly, the obstacles to development of the developing countries are a result of structural malfunctioning and disequilibrium in present international economic relations and therefore calls upon the international community to engage in effective negotiations within the framework for restructuring the international economic relations towards the establishment of the New International Economic Order."

So you see we had the vote against the U.S. and 22 abstentions, all the Community, and unfortunately, also Canada. That was the most difficult of the negotiations we had last year. We are trying to be optimistic and to think that this year we can have, perhaps, some different version of the global negotiations that we have not been able to achieve. I shall not read those paragraphs which have been mulled over for five years now and which have stopped the possibility of consensus because of the attitude which tries to solve all the issues before meeting at the table of negotiations. The whole thing has just deteriorated.

As Mr. Lozoya was saying: the real use of the UN, which has changed a lot, is that it has been the forum where we have contributed to changing the international law that prevailed when the UN was established. To the point of the international and conventional Law of the Sea I shall only add the mention of resolution 2625 of the third Conference on the Law of the Sea which is the development of the principles of friendship and cooperation. It is a very important resolution in which the main principles were developed like very many that were not in the charter because the economic chapter of the charter needs to be improved quite a lot.

On very many of the questions that Mr. Lozoya pointed out I just have one doubt: there is some sort of contradiction between the element in number 10 and that in number 13. I believe that the real problem is that the developing countries have a genuine internal problem of education and they are also in a very difficult position to approach sympathetic Northern structures. Taking any developing country, but not Mexico, it is really impossible for them to send people to lobby for their needs. Even in international organizations it is very difficult to try and explain what is happening and give the facts. This could be an element in a very limited way.

The other problem that I want to mention is the fol-

lowing: I totally agree that the UN should be restructured but I do not know if including more problems in the debate will be very helpful. One of the favourite Mexican proposals in the Committee of the Charter of the UN, which is called something like: "The Charter of the UN and the Strengthening of the Role of the Organization," was the elimination of the general debate and we had a real problem with that proposal and we just dropped it. If apart from the general debate we are going to have so many general debates by all these groups, together in the political fora, then we are going to have real problems. Perhaps if we devise some ways of consultation through the more concrete fora like the international organizations, like some technical agencies, then we shall have more results. The role that some interest groups are playing already is very useful in certain matters. Last year there was also a resolution in the Second Committee in which the people of health and environment, especially one very active NGO was consulted and that was on the protection against products harmful to health and the environment. It was adopted with one vote against, the U.S., and the rest of the international community consider it acceptable for their own internal, and for international purposes...

Prof. Robert Cox
(York University):

I interpreted my task as being to comment on Prof. Lozoya's paper. Since his paper and his presentation today cover a vast range of subjects very briefly, I have taken this as a licence to comment on a fairly wide range of things, many of which were raised by him, but some of which also are an accumulation of the ideas that I have listened to in the course of these two days of discussion.

At the outset I would say that I share with him the importance of the holistic approach, if this means that we can only understand the part if we see it in its relationship to the whole of which it is a part. Possibly we have a different sense of what this holistic approach is. My usage and practice is conditioned more by the influence of people like Mark Bloch and Furnel Brodell, the Annals School of Historians and then by the systems theory or the second law of thermodynamics. But we are not here to discuss the epistemological issues and judging by the terms

of some of the conclusions we probably are in fairly substantial agreement.

The whole that I see is what I would call "an historical structure" by which I mean that there are practices and relationships that endure over substantial periods of time. These are practices that are built up by human activity: they are not something genetically determined or which derive from something outside human behaviour; but human behaviour tends to perpetuate them and the world political economy is a kind of structure, in this sense, which we have to understand. We also have to understand the possibilities of the transformations of these structures and the ways in which this happens. My sense of that is that there is a dialectic of challenge and response; there are conflicts that open up possibilities of transformation which may cease or be lost. The critical appraisal of any given situation is to understand what other opportunities it opens up and what are the real options, with consequences that we can help achieve, as distinct from, perhaps, some Utopian imaginings as to what might be possible.

To come to the New International Economic Order, the term has been used to cover a very wide range of things and I would like to distinguish three aspects which are interrelated but which, conceptually, it is useful to distinguish while remembering that they do not exist separately from each other.

In the first of these three aspects I would say that the NIEO is an evolving set of objectives deriving from an intergovernmental political process. The term is used conventionally with initial capital letters and it is perhaps useful to confine that term to the set of objectives that come out of that continuing process; it is not a final set of objectives, it is one that evolves but let us conceive that as something that we can deal with and understand in its limited concrete actual historical existence.

The second aspect is the broader structure of world economic relations. Two aspects are important here: one is the international division of labour and the changes that have been observed in it – the tendencies that are observable there. The other is a question that hangs over the future patterning of international economic relations; essentially whether these are going to be reconstructed in some revival of an open liberal-type world economy or whether

we are settling into a period characterized by increasing protectionism and a fragmented world economy of what one might call a "neo-mercantilist" type. It may not be that it is either one thing or the other but that, even more probably, we may live through a long period of a mixture of these two tendencies. It is useful sometimes, again analytically, to think of them as almost ideal types and to try to estimate what are the tendencies moving us in one direction or in another of these directions.

The third aspect of the general topic of the North-South issues (which is sometimes assumed under the title of NIEO, but I would rather restrict that title to the first of these three aspects) is the development strategies pursued in different societies.

I would like to concentrate on the second and the third of the aspects and then to ask the question of how the intergovernmental process of developing goals and objectives relates to the kind of analysis we can make of the structure of the world economy and the options as regards development strategies. When we come to the structure of world economy and the issues involved in that I would like to refer back to the two papers by Prof. Urquidi and Prof. Helleiner that we heard yesterday. I personally left that meeting with a great deal of frustration because I felt that here was a debate and a discussion that should have opened up and which we just did not have time to pursue.

I saw two distinct and different visions in these two papers. First of all, in Prof. Helleiner's paper I saw the aim of a reconstruction of the open liberal world economy and Prof. Helleiner's convictions that this was the best kind of world for the middle power. Secondly, in Prof. Urquidi's paper I saw a conclusion that it is unlikely that this kind of open liberal world economy will be reconstructed. Therefore, it is very important for countries to consider how they can live, survive and develop in a world which is neither very liberal nor, perhaps, fully protectionist (neo-mercantilist), having in mind particularly the political and social need not to sacrifice a significant part of their population to long periods of misery. The middle power factor is important here because these powers probably do not have very determining influences on the outcome. Middle powers may have marginal influence but mostly they will have to live with whatever kind of world economy is evolving and, therefore, it is very important for them to be accurate in their analysis

of what is happening. My own instinct is one that inclines to agree more with Prof. Urquidi's assessment than with Prof. Helleiner's perhaps greater optimism on the score of liberal potential.

Prof. Helleiner said that he wanted to put this in the framework of an historical perspective and, if I try to do that, I can see that the periods of recent world history, in which such a liberal world economy has existed, have been relatively brief. I would be tempted to put dates to them in this way and say that there was a period from about 1846 to approximately 1873: In 1846 there was the Bank Act in England, the repeal of the corn laws, the opening of the world markets on a free trade basis, the gradual attempt to extend both the free trade principle and the practice of the gold standard throughout other parts of the connected trading world. 1873 was the onset of the long depression; a retreat, generally speaking, into more protectionist policies, the beginnings of a more aggressive imperialism on the part of the newer emerging powers as well as Britain, and a relative lessening of British economic and naval power in relation to the rest of the world. By some curious chance the same dates of the second period seem to reappear in the twentieth century:

1946 - the assumption by the U.S. of a responsibility for economic leadership towards the aim of liberalizing the world system with the adoption of the Bretton Woods institutions which were immediately put into cold storage and replaced by the Marshall Plan which was being considered as a means towards the introduction of the goals of the Bretton Woods institutions.

1973 - the ending of the fixed exchange rate principle, the development of the floating rate principle, the onset of the oil shock and a perception of a relative decline of the U.S.'s position in the world and the questioning of its capability as well as its will to exert the same kind of leadership that it was able to exert in the earlier period.

There are certain political and economic conditions which made it feasible for a liberal world economy to exist during these two relatively brief periods and the more normal condition, historically speaking, is one in which there is a political-economic rivalry, the use of political instruments in order to defend national economic interests and degenerating from that to open warfare.

I am not suggesting that the future is necessarily a repetition of the era of imperialism and the two world wars that represent that interval, but that we may have to learn to live with a set of economic circumstances that are not those of a reconstructed liberal world order.

If I can move from the above statement, which I suppose is one of initial pessimism, to some assessment of what are the social-political consequences of the kinds of policies that have been followed, pursuant to the expectation or hope for a reconstruction of the liberal world economy, very summarily I would suggest that in the core countries we have witnessed, since the late '60s and particularly through the '70s, a significant transition in the social-political structure of power in these countries; that there has been an end to the social consensus on which the welfare state was founded in the postwar period; a social consensus in which organized labour, together with national industry and government, work together with Keynesian management practices in order to maintain a kind of social compact within countries that were experiencing a period of economic growth. In the '70s we saw that coming apart and we see, perhaps, extreme forms in Thatcherism and Reaganism but similar policies are pursued in many other countries, including our own, in which governments are placed in a position of being anti-union, in which budgets are being cut in such a way as to prejudice the social services that were built up during that period, when small businesses are being hurt by the high interest rates, and the public service, instead of being the principal support for the state, has become an object of attack by government through its budget cuts.

The whole political-social alliance in which the core countries pursued that period of expanding liberalism has slowly been reversed during the past decade. This has led to a polarization in which the maintenance of existing practices still seems to have an electoral majority but groups that were formerly part of a social compact are being excluded and put on the defensive.

In the less-developed countries one can see a similar kind of problem arising. The types of stabilization programmes which have been advocated through the international monetary institutions have been of a kind that tend to put the burden of adjustment on the most vulnerable sectors of the population; they have hit the possibility of imports by national businesses, they have lowered real wages, they have increased unemployment. In their extreme

form they have taken what Prof. Urquidi called the self-destructive aspect of the policies pursued by governments like those of Chile and Argentina. The implications of alienating such a vast part of the population, including some parts that had been sharing, as in the case of the core countries, in the kind of consensual development policy, leads one, at the extremities, to the dilemma of either increasing the level of repression or confronting the prospect of revolution.

The big issue arising out of the debt crisis and the accompanying measures is not so much whether the bank will be repaid but whether the political structures, which have been prescribed as remedies for the crisis, will be strong enough for the economic crisis. This leads me to a kind of rhetorical-like question: Is this crisis conjunctural or structural? Those who have maintained the liberal option have tended to take the view that this is a conjunctural crisis; this is analogous to the kinds of recurrent crisis that the capitalist system has had to live through, even though this is longer and more severe. If we are able to survive the bitter monetarist medicine things will pick up, growth will resume and the system will go on as before. If it is a structural crisis then that assumption ceases to be valid. Perhaps a better way of putting it is not whether it is conjunctural or structural, but whether it is a conjunctural crisis of the traditional type. Is this so severe that it opens up the possibility of significant structural change and, if so, what are the avenues of change that we might see as the basis of new kinds of consensus, both in the core countries and in what are now the peripheral countries? Perhaps, if structural changes of the kind that we wish for occur, these concepts of core and periphery will cease to be meaningful.

This leads me to the topic of the alternative development strategies and here you will see that I am recalling elements of the discussion yesterday and hoping that they may get back into the agenda again today. I was struck particularly by Prof. Urquidi's comment that the crisis opened an opportunity for countries like Mexico to opt for a different pattern of development, to reorient their strategies towards an inward-oriented pattern of development. This morning's discussions reiterated some of these points in dealing particularly with the question of technology which underlined the same kind of differences I observed between Profs. Helleiner and Urquidi yesterday,

namely that, on the Canadian side, there was a tendency to take the forces of technology and of the market as exogenous depending on which policy has to be adopted. Whereas, on the Mexican side, there was more of a disposition to say that these are certainly considerable menacing forces but our problem is how to get control of them in the interests of certain social priorities which can be developed within our own society. That difference seems to me to be a very important one. It is one that I would like to see as being the basis for any further reflection and research that goes on following this particular meeting. In this respect, I am convinced that the Mexican side is way ahead of the Canadian side in raising the questions, perhaps not in finding the answers, but certainly in being aware of the questions.

The same kind of questions exist for a country like Canada, but I am somewhat distressed by what seems to me to be the absence of an effective asking of the questions as yet. In particular, they are not being faced by any of the political parties. We do hear talk of an industrial policy but I do not see that problem of an industrial policy being placed within the framework of an articulation of clear social goals and of the building up of a new social consensus that can be the political basis for an industrial policy confronting a world that is not going to be liberal nor totally protectionist. This is the area we must reflect upon and I do not see it coming out of many of the other advanced industrial countries. During the intellectual bankruptcy of Labour in Britain in the last election, the prospect of a coherent alternative to the monetarist prescriptions, which have formed the basis of the diagnosis and the policies in recent years, just does not seem to be present.

We might, in this connection, also try to begin to think the unthinkable, namely to confront the possibility of default, not as an unmitigated disaster but, using a term less jarring to the ears: "unilateral moratorium," maybe as another way of opening up opportunities and not necessarily to advocate it but to consider the scenario and to consider what kind of consequences would follow and, particularly, what new social-political base of power would be necessary to carry through the alternative development strategy. Where then does the NIEO, in the limited sense in which I mentioned it, namely the agenda before the UN institutions, figure in relation to these broader structural questions?

There has been a curious convergence of economic thinking from liberal, Marxian and "dependencia" schools. The liberals have produced the product life cycle theory which explains how certain more labour-extensive forms of manufacturing are moving into the cheaper labour areas and particularly Third World areas. Neo-Marxists have seen this as confirmation of the tendential law of the falling rate of profits and have joined in that analysis. The dependency theory has been revised to move it away from the development of underdevelopment to the concept of dependent capitalism. In other words, they have all agreed on what is happening, although, perhaps, using different terms. What is happening is the emergence of a new international division of labour but one which operates within the same pattern of development, a kind of development that is producing for the elite markets of the world, for the rich countries and for the rich of the poor countries. It is producing the consumer durables, it is not addressing the problems of basic human needs because the economic demand has not been created to make the market work in that direction. Therefore one can think of the agenda as being essentially an argument over the distribution of the returns from development, the gaining of a greater measure of returns for the Third World countries, but not a change in the pattern, in the mood of development. Some people have taken that position, those who are the Third World critics of the NIEO, perceiving it as still a perpetuation of the old model of development rather than a movement towards the kind of inward-oriented self-reliant pattern that I believe Prof. Urquidi was sketching for us yesterday.

A certain degree of ambiguity has entered into the meaning of the term "self-reliance." On the one hand it does mean an alternative development, a pattern of development that is oriented more towards basic needs; a political restructuring of national markets so as to make that kind of orientation in production more feasible. On the other hand, the term has been more or less co-opted by some who have put their hope in the revival of expansion of the open liberal world market; the major vehicle being the direct foreign investment of multinational corporations. They have brought forth this distinction between the Third and Fourth World; there is a kind of dangerous trap in this, in that the newly industrialized countries are conceived as part of this integrated world economy that can develop according to the old development model, and the so-called Fourth World rep-

resents a perception which has emerged since about 1968. Before that date most of the doctrine assumed that there would be a kind of global trickle-down factor, that those that were furthest behind would somehow be dragged along into the development process.

Around 1968-1969, there was an important ideological break with the identification of a Fourth World which would not develop. Consequently, it was necessary to introduce a separate set of measures, supported by the world institutions, to prevent this hopeless element of the world economy from destabilizing development in the rest of the world. I would come back to the critical importance, in connection with this whole set of problems raised by the NIEO, of confronting the opportunity of alternative patterns of development, of exploring these more thoroughly and, particularly, of not neglecting the question of the necessary political and social base without the support of which no kind of programme would be feasible.

That was a kind of marginal comment on what Prof. Lozoya said without it being a point-by-point comment. I hope it may encourage Prof. Urquidi to elaborate also on some of the points he raised yesterday.

Prof. David Pollock
(Carleton University):

I agree with Amb. Carmen Moreno's opening comments that shared the preoccupation of Prof. Dossman and mine and considered the roles of Canada and Mexico as being important to the ongoing North-South dialogue and, in particular, her emphasis on the fact that both countries, and related middle power strategy of like-minded countries, could play a positive role in that dialogue. In particular I think she emphasized it because that would strenghten the UN system and, as she said, we, the middle powers, do not see the UN system the way the superpowers do. I could not agree more.

I am also in total agreement with her point to the effect that regional initiatives merit further exploration; not only Contadora, but also in the economic sphere. I was aware of the SELA activity in Brussels and of the Inter-American Bank activities; it was not quite what Mr. Dossman and I had in mind by study, it was, in essence, a

very practical collection of projects that could be implemented when, and as, or even before, stability returned. It was not quite the concept that we had of looking at Central America, the way one would view the region for a concerted, economic and social reconstruction and development. A good start, but not quite as ambitious a one as I would like Canada to seek to finance.

She said she had doubts about the OAS but would not comment on them, I share that too.

On trade policy she did not have any comments except for the problem of how to start. We certainly agree that primary product price stabilization or price strengthening is difficult; that has long been the case. We do suggest two approaches: international commodity market organization but not as big as the UNCTAD integrated commodity programme or, if commodity market organization disturbs someone because of ideological constraints on intervention, we suggest compensatory financing facility. The issue, after all, is to stabilize foreign exchange earnings and not the earnings of a given commodity.

On technology she has a very powerful argument: that instead of focussing so narrowly on the code of conduct, which is really going nowhere, she would like to think of a totally new approach to technology sharing. We are completely in agreement but were being a little modest in the paper.

The only final comment I shall make is one that Prof. Urquidi said: "Do you find yourself as a wistful optimist now or as a wistful pessimist?" I do not think I am a pessimist, I like a good fight and I'd just like to see the developing countries and Canada focus on a tactic or on a strategy.

I was with Dr. Prebisch in UNCTAD 1 and 2 when the situation was very bleak. There was no such thing as a North-South dialogue, it was just starting. There was a considerable amount of disagreement but it did start something. It did not have successes but that stage in history had to occur, "concientización." The South had to explain to the North why it was disturbed with the way the system was working. That was a conflict of ideas. Then came a struggle through conferences on policies. That failed. What I am suggesting is that we should not fight against ideology and not hang in on great big NIEO shopping lists, but to take a few points in common for the like-minded countries; North and South to-

gether see some agreement among themselves and they then bring those with extreme ideas together.

I ask myself what would Canada and Mexico do differently in the future than in the past to help onwards either the East-West security or the North-South development levels. That is what Prof. Dossman and I focussed upon. All this paper tried to do was to focus on a few practical areas where I do not think there would be that much difficulty in contemplating the emergence of a new constituency, not creating any new machinery, nor any new policies but finding some overlapping areas on the circle of North and South.

Prof. Jorge Alberto Lozoya
(El Colegio de México):

I would just like to say a few words. First: Amb. Moreno's remarkable presentation again shows me that multilateral diplomacy is an extremely invigorating profession about which the populace should know more. I believe that life itself has no resolution, that it is a process. My insistence, for instance, is that the struggle is extremely important and, taking into account the point of view of the developing countries, our populace, starting with the academic world and then the people themselves, should know more about what this diplomacy is all about; such as, for example, the difficulties of the process for the developing countries. The difficulties are very invigorating.

I am not so sure that the South cannot put its capabilities together to express its purposes and tactics to sympathetic forces in the North. If we could just organize ourselves and have the purpose of doing it, there would be more sympathetic voices in the North than we would expect. We also spend a lot of time and resources getting in touch with the wrong forces, so there must be some way of getting in touch with the right ones. We are, of course, talking of two different things when Amb. Moreno says that opening the UN to more forces would be putting more problems into the debate and make her job more difficult; she is a government representative and that is the way she would naturally react. Her role is to say that and mine is to ask for more openness. Since

we are both on the right side of the fence, we are sharing the same purpose; one is a short-term issue and the other is a long-term one.

I fully agree with Mr. Cox that my remarks were on the basis of a practice and relationships that endure and are built up by human activity. That is the only purpose: portraying or showing or witnessing them. And it sometimes has extremely infuriating and depressing moments, but the possibility of finding responses to the challenges is there. I was referring to NIEO as a programme of action. You can read resolution 3201 of the 29th Plenary Meeting of the 1974 General Assembly as well as resolution 3202 of the same meeting. There you will find both the declaration and the programme of action of NIEO. It is an interesting and very wide document, full of contradictions, but still important.

My only point of concern as to what Mr. Cox just said is probably about the interpretation of the term self-reliance. Personally my understanding of the term would be closer to Mr. Urquidi's interpretation. I am quite frankly, politically speaking, a little concerned, in a negative way, about this Third and Fourth World matter. As I made it clear previously, I do not think that this midpower game is one that is going to be profitable for countries like Mexico, or Egypt, or Argentina, that we are going to make it if we behave properly. These newly industrialized countries are to be divided according to self-reliances: one for the Third World and one for the Fourth World. We belong to the Third World and others will have to change everything and other countries with the same GNP could probably follow the same line. If I understood it correctly I would not agree with it. Mexico and Canada are not the same when considering the welfare of the population. We are not a mid power, we could be a strong government when it comes to deciding at the UN, but we are very poor in terms of what the populace has in the way of education, health and housing; this is not Ottawa or Toronto. Mexico City and El Colegio can look very modern, but there is still a long way to go. My impression is that we have to change and to rely upon ourselves in a different way, internally, across the South and vis-à-vis what we have in the North. I am probably misinterpreting some part of Mr. Cox's very interesting global comments.

Prof. Robert Cox
(York University):

I think it was perhaps because it was getting towards the end of the session that I was not as clear as I should have been. I understand, as Prof. Lozoya does, the meanning of self-reliance and I wish to manifest my support for that concept as being the basis of an alternative development strategy. This is the important thing to be focussed on. I was only, as a kind of footnote, signalling that the term has been co-opted by people who are not thinking of it in that way. I am not sure that this is always very clear, but the World Bank has taken over some aspect of the term to mean the policies that would be applied at the margin of the world economy, for those unable to be integrated, but that the main thrust should be the evolution of the old development model. This is a kind of what I might call a "do-it-yourself welfare programme" for the poorest countries. That form of self-reliance, it seems to me, is contrary to the concept which Prof. Lozoya has advanced of an alternative development strategy; it is a non-development strategy and we must recognize that and be aware of the danger of being tricked by this use of terms.

The floor is opened for discussion:

Prof. Edgar Dossman
(CERLAC, York University):

I do think that the fundamental problem is really one of strategy and in Canada, probably for the first time in many years, there is a sort of beginning of a fundamental rethinking of industrial strategy, not only the likelihood of the persistence of very high unemployment but also the real difficulties that Canada is going to face more generally in the international economy. The possibility of concept innovation to start this rethinking would benefit by a Canada-Mexico focus. There are many other possibilities as well, but if one would try to find an avenue for a rich potential for this kind of rethink-

ing of industrial strategy, at least from our perspective, it would be really hard to find a better partner than Mexico, precisely because it is very different.

In that sense, as suggested by Prof. Pollock, the notion of a major research programme, looking at the issue of style or models of development but with substantial funding, could build from existing institutions such as IDRC which, theoretically, has that mandate anyway and offer a bridge between the more fundamental theoretical issues involved in the North-South question, as suggested by Mr. Cox, as well as meeting the requirements for doing something right away. The same question of protecting models of development in different tiers of countries goes also for the notion of Canada and other countries getting more involved in areas where a model of development is indeed at stake.

It could be argued that one interesting dimension of the Central American crisis is precisely the incompatibility of a model of development. Nicaragua, a small country, is certainly no military threat to the U.S. Nevertheless, incompatibility is felt between that model and the inherited U.S. concept of national security required by Washington; that is, a certain political, economic and cultural orthodoxy. Countries like Canada and Mexico, even though they may not agree with the goals of the revolution, allow the concept of providing this Fourth World with political space in the hemisphere to try out new ideas and to implement them immediately. Some bridging will go on between this broader theoretical thrust and practical policy considerations of the day. In the case of Central America, it could be argued that this kind of political space, or the protection of political space, is reaching a very critical moment.

A CANADIAN DELEGATE:

I would like to comment on Amb. Moreno's remarks about the multilateral institutions. We must try to protect these institutions, the UN and OAS, and do our utmost to rekindle, to revive, the spirit of 1945, that is for the UN anyway. Recently recovering from the terrible experience of the 1939-1945 war, people were more inclined to be generous in their views and approaches to world problems. Multi-

lateral institutions can have a fresh start, if they need to be reshaped, reconsidered in their form; let us not run away from this responsibility of doing just that. If these institutions responded or answered to the needs then, of 1945, for the UN, then let us fix the objectives and goals of these institutions to the present needs. If we were to do that we would accomplish a great deal.

Mr. Wright:

I have a question for Mr. Cox which will probably make him sigh with exasperation at the lack of comprehension of his listeners. You put a lot of emphasis on developing the political and social consensus behind industrial development policies and if, in fact, we have reached an end of ideology, then what symbols can you use to organize that consensus? How do you do that? In a developed country like Canada how do we do that? What emotional basis can you find to build the kind of consensus that I think you very rightly say is necessary?

Mr. Cox's (York University)
answer to Mr. Wright's questions:

I am not sure that I would agree that we have reached the end of ideology, we are in an era of flourishing ideologies and some of the people who are most ideological are those who maintain that they are not ideological. Ideology is a way of perceiving the world and of interpreting actions in relation to those perceptions, that is something that we live with and it is not going to go away.

As to the basis of consensus, I cannot give you an answer to that question because that is the big problem that we have to work with. We can see what has happened in the past and, at this point, I cannot give a prescription for the future. But let us take an instance: one of the key actors in dealing with the fiscal crisis of New York City was Felix Roheigen. He, to my mind, is one of the people who have come out with some ideas for an alternative economic strategy in the U.S. and, perhaps, influ-

enced very much by his experience in dealing with the New York situation. New York is a kind of city which would be ungovernable without the major economic and social organized forces being brought into the picture. What they did was to try to negotiate, I cannot remember the specifics of it, I remember there was a great deal of pain and anguish at the time but it was dealt with on the basis of trying to build up a social compact that would be politically acceptable to a very substantial part of the articulate organized population of the time.

The problem that we face in our, what I could loosely call, core countries now is that the old welfare state consensus has been reversed, the governments have slowly rejected it and it is only looking backwards that you realize the extent to which that has been turned around, but nothing else has been put in its place except a kind of appeal to generalized populace type sentiments. I do not see that as a very firm basis for long-range development strategy. I am therefore posing a problem, I am not giving the answers but I believe that Mr. Dossman joined me there in saying that we really need to focus more on this question of strategy. The fact that our political parties have not come up with coherent alternatives is indicative of the continuance of this problem; even those that you might have thought would come up with these alternatives have not been able to. I am just raising the question, I wish I could carry it further but I do not think I can.

Chairman Prof. Víctor L. Urquidi
(El Colegio de México):

The North-South dialogue sometimes seems to me like one of those endless soccer or football games where nobody shoots at the goalkeeper. There is no commitment to win nor to achieve an objective.

One could comment at great length about the papers presented by Profs. Pollock and Lozoya, but I would like to say that if we are talking of various forms of finding ways through middle powers to improve the approach to the North-South dialogue and the issues around, if there is no commitment on the part of the North, if Canada has no clear commitment, there is not really very much you can achieve. This is why I am not very optimistic. I find most of Prof. Pollock's proposals rather bland: it is po-

lite, it is nice, it is a sort of wishful thinking, but one is not very convinced that much ground could be gained in the kind of things that he is suggesting for Mexico and Canada because, as Prof. Lozoya said, there are very many underlying problems which do not come to the surface in discussions such as these, but which do determine the positions countries take.

Another point is that governments go to the UN and say all the things they say and spend these endless hours, nights, drafting these operative and preambular paragraphs, little words and commas here and there. I have been in that, I spent a whole assembly once discussing commas. They take positions that sometimes have nothing to do with what is happening in the countries. One gets that feeling when Mexico takes leadership in the 77 with various nuances according to who is president. That is not a reflection of the kind of problems that Mexico is dealing with in its own development which it has to work out in a different way, either bilaterally or on its own. I am sure this is the case with Algeria and Yugoslavia and many others that we know, that are so prominent in the nonaligned movement or in the Group of 77.

Likewise, as I was suggesting yesterday, the North is not all that homogeneous, there are, of course, here and there, those opportunities in the attitudes of certain governments, but they cannot go very far. One is left with the feeling that the North is certainly not willing to change its path, or that if it does it is like a very slow-moving elephant and you will not see any real change for an awful long time. Therefore, from the South we are faced with a North that is not exactly monolithic but it is there and it is not going to change very much, it has had a lot of power in world history, in the world economy; it got terribly threatened by the OPEC's sudden power over oil, it bounced back and weakened OPEC or OPEC weakened itself also because they were immature and the North is still what it has always been. We are moving along perhaps somewhat into the area of the world economy as we know it in the North, but that is slightly deceptive because we have such deep structural problems that we might not be able to do that. I do not see Brazil becoming another Sweden or Mexico becoming another Canada or Singapore or South Korea becoming another Switzerland. We have our own problems, they are very deep: we have the population growth, the tremendous rural areas of low productivity and enormous rigidities in trying to do

something about these backward parts of our countries: Brazil, Mexico, India, etc. There is a tremendous resistance to new ideas, there has not been much of an ideology on development in the South, except for what ECLA came up with in the '50s: import substitution with some notion of the need for structural change; there have been so many new problems which have not even been absorbed into that thinking. When one throws out two or three ideas like in that paper Professor Lozoya kindly referred to, it is true we have got no reactions, no comments, people are too lazy to start thinking of something new, except in a very theoretical way, the thinking of new utopias. I think a lot of the NIEO as a utopia and you hear about it at the local level also, indigenous development and many extreme forms of self-reliance that are proposed by people in Africa, Asia, etc. There is a difficulty of going from those utopias to something that will work, will respect fundamental objectives, but that would also be practical and work because you only progress through certain forms of industries and social organizations and not by regressing to Borneo or to some East Timor kind of society.

I do not think that what was said here this afternoon indicated that the speakers are very far apart; there was emphasis of different kinds. Mr. Cox made a very important statement saying that if the present crisis is judged as conjunctural, it does open up opportunities for structural change. I do not fully share that view. I think that there are structural problems in all the areas, but it is a very deep conjunctural crisis and a cyclical crisis. Here is a tremendous second Great World Depression and we are now concerned with the short term, the immediate, the liquidity, but we should take the opportunity to introduce such changes, perhaps not radical utopian change but such changes as will set us on a better path that will achieve growth with more social justice and improvement of basic living conditions. If 110 or 115 million people in Latin America are undernourished then there is something wrong with everything we are doing and it is going to be more so by the end of the century if we continue along the paths we have been following.

I am very wary of all those who say we must transform everything through a socialist system, because the only experiences we have had with socialist systems, like Cuba, mean the loss of your freedom and I do not share that. If somebody wants to lose his freedom and thinks people should lose theirs to achieve some kind of security in

health, education, food, well that is all right for him. I do not believe that, I do not share it. I do not think that the Cuban experience can be repeated so easily, not even in Nicaragua; it is a different context, it has many different factors.

We have to work with ideas so much more, with thinking things through in the medium and long term; there is too much concentration on the short term especially amongst economists in Mexico, they are only concerned with the immediate situation. There is no long-term thinking in this country, except in a very vague rhetorical fashion; "triunfalistas" sometimes in the sense that we are going to come through and become a great power.

I know that in your country you do have groups looking at the long-term resources problems (there is a negative response in the audience); you do not? I read about think-tanks and so on. The U.S. made some attempts, there is this Global 2000 thing and there are groups in other countries. There is nothing here, and there is not much in the rest of Latin America except, in very utopian ways, the Bariloche group that the IDRC got hooked on so badly, and practically nothing else except for some utopian Brazilians whom I know. This is the problem we are facing. Now, to link it with NIEO: I, unfortunately, do not share Prof. Lozoya's very optimistic, almost dogmatic faith in the NIEO. I just do not think it can be achieved by proclaiming it, whatever resolutions are passed in the UN. We have to work at issues and also follow up. Here I go along with Prof. Pollock's idea: the like-minded countries working at issues, working out problems. You can sign all the resolutions you like at the UN, but you are not going to get anywhere in that direction - global negotiations and all that are nonsense, you will get somewhere if you work at issues and you have clear objectives in mind and you fight for them. Be persevering! This applies to our relations with Canada, as it applies to our relations with other Northern countries; it applies to opportunities with the U.S. as a negative bloc in front of us. We should take every possible advantage of all the opportunities that this crisis gives us, to find ways out even if they are not the ideal situations.

In that sense I am not a wistful pessimist; I am a little optimistic in the sense that if we think hard enough we can find these ways, but if we get detoured by rhetoric, by utopian solutions, then we are just going to remain as we are.

SECTION 5

# SPECIAL SESSION ON CENTRAL AMERICA

# CANADA AND CENTRAL AMERICA: STANDING ON THE SIDE OF THE FUTURE

*Hon. Maurice Dupres*

## INTRODUCTION

It is a pleasure and honour for me to participate in this conference. I feel that in visiting Mexico City once again, I am among friends. The House of Commons subcommittee on Canada's relations with Latin America and the Caribbean -of which I had the honour to be chairman- visited Mexico twice during the course of its work. My colleagues and I found in Mexico City a rich source of knowledge of Latin American and world affairs and a sensibility with which many of us sympathized. For all these reasons, I am happy to be back.

I have been asked to participate in a discussion of Canada and Central America. I do so eagerly because, like everyone here today, I am deeply concerned about the unfolding tragedy of Central America. The House of Commons subcommittee had the grim experience of warning our government of the danger of things growing worse in the isthmus and then watching our fears unfold. At the same time I remain heartened -as do many Canadians- by the efforts of the Contadora Group to promote the politics of peace. And, in particular, Canadians admire the steadfastness of Mexico in developing and applying its own policies for Central America while maintaining close relations with the United States, the great neighbour of both our countries.

I will describe briefly Canada's interests, perceptions and policies in Central America. Before doing so, however, I would like to take a few minutes to sketch the broader picture of Canada's growing awareness of Latin America.

CANADA'S AWAKENING INTEREST IN LATIN AMERICA

When our parliamentary subcommittee began its work in the spring of 1981, a senior Canadian official commented that Latin America was the great neglected area of Canadian foreign policy. It was treated as a side issue, peripheral to our interests in the world. Today the situation is very different. Canadian interest, both political and private, has grown enormously. Why the sudden change?

In part, crisis is the mother of attention. The British-Argentina War, the violence in Central America, the debt crisis which afflicts this great country and many of its neighbours - the media attention to these events has no doubt aroused Canadian interest in Latin America. But there is more to it than that.

The fact is that in the past few years, Canadians have begun, belatedly, to recognize their own stake in the future of this hemisphere. I cite only two examples of immediate self-interest: the five major Canadian banks have $22.3 billion in assets in Latin America and the Caribbean compared with $1.8 billion in Africa and the Middle East and $12.8 billion in the entire Asia-Pacific region; and some 40 percent of Canadian oil imports come from Mexico and Venezuela through troubled waters. These and a host of political, economic and just plain human considerations led the members of the parliamentary subcommittee to a unanimous conclusion and recommendation:

> There is no region of the South which is of greater economic significance to Canada or in which domestic and international events impact more directly upon Canada ... Accordingly the subcommittee recommends that the government give a much higher priority than it has in the past to Canada's relations with Latin America and the Caribbean.

It is not my intention to describe in detail the policies which Canada can and should pursue in Latin America. Suffice it to say that Canadians have no desire for their country to be the pale shadow of any other country's policies. Canada has its own approach to international relations and to economic development. Canadians want the approach put into practical action.

As the subcommittee saw it, the central objective of Canadian policy should be the promotion of stability

through economic and social development, encouragement of respect for human rights and the strengthening of mutually beneficial commercial relations. In addition -and perhaps most importantly in current circumstances- Canada should bring its tradition of internationalism to bear in the building of hemispheric institutions and the peaceful resolution of conflict. With those few observations as background, I will now turn to the subject of Canada and Central America.

## CANADA AND CENTRAL AMERICA: THE CANADIAN VIEW

There can be few areas in the world which, at first glance, represent so stark a contrast with Canada as does Central America. Tiny, in the main poor, terribly vulnerable countries have long histories of repression and violence. And it is the case that Canadian contact with Central America has, until recently, been quite modest. Trade figures are tiny, Canada has only two diplomatic missions in the area, development assistance is on the increase but still small. Why then the Canadian interest?

It springs first and foremost from a humanitarian impulse. Central America is seen by Canadians as a region now reaping a bitter harvest of outmoded and unjust traditions at the same time that international economic forces are most adverse. In many parts of Central America, and particularly in El Salvador, we see with shock and horror widespread violations of elementary human rights, atrocities, torture, massacres and murder on an appalling scale. In the Canadian view, Central America must recreate itself politically and morally while at the same time coping with overwhelming economic pressures. In all this it can use more than a little help from its friends.

Canadians are also deeply concerned by the ever-growing danger of the Central American conflict widening and intensifying. The fire in the region is fanned by major outside forces. It has been the clear and consistent position of the Canadian government that the troubles of Central America are primarily indigenous, as must be the solutions. Mr. MacGuigan, the former Secretary of State observed in March 1982:

> Instability in Central America -and in most other

> cases in the Third World- is not a product of East-West rivalry. It is a product of poverty, the unfair distribution of wealth and social injustice. Instability feeds on poverty and injustice. East-West rivalries flow in its wake. I can think of few examples when the process has been the other way around.

In this statement, Mr. MacGuigan was speaking for the common political view in Canada, irrespective of party. It was a view strongly held by virtually all members of the House of Commons subcommittee.

Most Canadians see democratic, reformist politics as the best hope for Central America. But it is the Canadian view that the people of Central America themselves should be free to make their own choice and that such choices should not automatically be viewed through a strategic prism. It is in advancing a doctrine of ideological pluralism that Canadian perspectives differ most markedly from the current outlook of the U.S. government. This is a sufficiently important point that I quote from a February statement by the Prime Minister:

> In our view states have the right to follow whatever ideological path their peoples decide. When a country chooses a socialist or even Marxist path it does not necessarily buy a "package" which automatically injects it into the Soviet orbit ...
>
> The internal systems adopted by countries of Latin America and the Caribbean, whatever these systems may be, do not in themselves pose a security threat to this hemisphere. It is only when countries adopt systems which deliberately inject East-West rivalry or seek to destabilize their neighbours that a threat is posed ...
>
> Thus we prefer to let countries choose their own paths for their own development. If they keep their social and humanitarian obligations to their people in the forefront of their actions, they will have Canada's help.

## CANADA AND CENTRAL AMERICA: CANADIAN POLICY

It must be emphasized that Canada is mainly the observer,

not the shaper of events in Central America. The opportunities to translate our viewpoint into effective policy are limited. This is particularly the case when it comes to Canada's response to U.S. policy.

It need hardly be said that there are differences between Canadian and American approaches to Central America. There are the deepest misgivings in Canada about the application of military solutions to Central America. It has, for example, been a consistent position of the Canadian government that the introduction of offensive weapons into the isthmus from all outside sources should be terminated. The House of Commons subcommittee, composed of representatives of all three political parties, suggested that three conditions had to be met for elections in El Salvador to contribute positively to the making of peace: - an internationally supervised cease-fire, serious negotiations between all parties to the conflict and an internationally supervised electoral process on the Zimbabwe model.

At the same time, the Canadian government -if not the Canadian people- has generally refrained from direct, public criticism of U.S. policy. In part this is the product of a desire not to damage relations with the United States, in part it reflects a measure of sympathy in Canada for the U.S. objective of preventing a radical left victory through violence in El Salvador. In the main, however, Canada's quiet diplomacy is based on the perception that Central America is far more important to the United States than it is to Canada. Overt criticism of U.S. policy is seen as a kind of kibitzing in a tragedy.

In general, Canada has quietly pursued its own approaches to Central America while keeping criticism of others to a minimum. It has stood willing to support a negotiated settlement without very actively promoting initiatives. Our diplomacy has been both quiet and, perhaps, passive.

The government has emphasized a "developmental" approach to the region by substantially increasing its aid budget ($100 million) for the next five years. It has given practical expression to the principle of pluralism by continuing aid to Nicaragua and resisting U.S. efforts to inject politics into the international financial institutions. At a June meeting of the Inter-American Development Bank, the Canadian director joined West European and Latin American representatives in disapproving of a U.S.

veto of a $2.2 million loan to build rural roads in Nicaragua. In response to the U.S. contention that Nicaragua's "macroeconomic policies" prevent development of the country, the Canadian director remarked: "Right now we're dealing with a case of finishing a small road. I don't see what relation this could have with the macroeconomic policies of the country."

In developing its policy, Canada has walked softly and carried no stick at all. The Government has repeatedly stated that it has no intention of providing military assistance or offering a Canadian military presence even to a fellow Commonwealth country like Belize. The Prime Minister has summed up the matter:

> We have consistently chosen to address hemispheric tensions from their economic and social causes, being equipped neither by ambition nor by capacity to pursue military solutions or grand strategic designs.

## STANDING ON THE SIDE OF THE FUTURE

That is a brief and, I hope, reasonably accurate description of the Canadian perspective and policy towards Central America. However qualified, there is a Canadian point of view and, however limited, there is a Canadian policy. Still it leaves a nagging sense in many Canadians -among them most members of the House of Commons subcommittee- that there must be a way for Canada to do more. Surely, the argument runs (frequently through my own mind) Canada can play a more active and effective role in promoting solutions to the terrible problems of Central America.

In my own view, Canada's opportunity to do so in the short run lies mainly in supporting strongly the efforts of the Contadora Group. On that point we should be outspoken and active. In the longer run -assuming that we have a longer run- Canada must revive its tradition of internationalism and seek ways of applying it in our own hemisphere.

Without getting into the ideological and political arguments that swirl in and around Central America, it is apparent that the weakness of hemispheric institutions is one factor contributing to the tragedy. The Organization of American States stands on the sidelines even though

many of its member states greatly fear the current course of events. The need, and I believe, the opportunity exists for international cooperation and institution building in the Americas.

This is the message that emerged from the subcommittee's travels throughout Latin America. It is a message strongly reinforced by a recent study prepared by a group of distinguished Latin Americans and Americans under the co-chairmanship of Sol Linowitz and Galo Plaza. The study -so aptly entitled "The Americas at the Crossroads"- summarizes the present situation very well:

> The strains and inadequacies that now afflict the inter-American system are real and must not be brushed aside. To ignore them would only spread the deterioration of regional institutions and the already noticeable tendency of members to bypass them. Such a trend, long continued, would cause the institutions to atrophy and ultimately die - only, perhaps, to be recreated after new, costly and avoidable crises have caused the members to relearn the lesson of their interdependence.

It is not my intention here to detail the many recommendations that have and could be made to strengthen international institutions in the Americas. I would only note two points of major importance.

First, the inter-American system is now populated by many regional and sub-regional institutions which promote cooperation among Latin American countries in specialized areas. For obvious reasons this is now critically important in Central America. In our first report, the subcommittee stressed the importance of Canada seeking opportunities to offset the dangerous atmosphere of confrontation and polarization in Central America by strengthening areas of cooperation between governments, irrespective of ideology. We noted efforts by Central American governments to discuss -if not plan- approaches to common economic problems (low commodity prices, intra-regional trade, development of communications) and recommended that the Canadian government strongly support such institutions as the Economic Commission for Latin America (ECLA) which foster cooperative efforts.

The second point I would make is that, however rich the variety of regional and sub-regional institutions,

there remains the need for a hemispheric political body, able to address security matters. In my view the Organization of American States, however grave its defects, remains a vital part of the system. Together with a majority of my colleagues on the subcommittee, I recommended that Canada seek full membership in the OAS and work assiduously to strengthen the institution.

I would be less than honest if I were to leave the impression that this recommendation was greeted with universal enthusiasm in Canada. There remain widespread fears that in joining the OAS, Canada would be thrust into the middle of hemispheric tensions, particularly between the United States and the countries of Latin America. Canadians fear being expected to serve as a proxy of the Americans or an uncritical friend of the Latins and, failing that test, being attacked by whichever side we disappointed. In my view these old fears are largely phantoms of the Canadian imagination.

When examined closely, the fears of Canada joining the OAS are really fears of Canada being more deeply involved in the affairs of the hemisphere and of staking out our own position on important issues. After all, if we run the risk of offending others by speaking in the OAS, we run the same risk by speaking clearly and forcefully anywhere, at any time. Is it then Canada's wish to remain a largely unheard and invisible presence in the Americas by avoiding involvement in the great issues? Is it in Canada's interest to do so? I think not. I maintain that it is very much in Canada's interests to bring its traditions of internationalism and institution-building to bear in the Americas.

Thank you.

# DISCUSSION 9/28/83
# SPECIAL SESSION ON CENTRAL AMERICA

Chairman: Prof. Edgar Dossman (CERLAC, York University). Hon. Maurice Dupras (Member of Parliament) presented a paper by invitation.

Prof. Ma. del Rosario Green
(Instituto Matías Romero de Estudios Diplomáticos):

First of all, I would like to thank both El Colegio de México and York University for having invited me to participate in this interesting Colloquium about matters which affect Mexican-Canadian relationships. I find it worthy of note that there is one session devoted to the Central American question. The paper presented by M. Dupras was extremely interesting because it brings us even nearer to the official position of the Canadian government regarding the current events taking place in Central America.

I would like to make an effort to present, not necessarily the official point of view, but my view of the extent of the negotiation in which Mexico is involved at this moment in the Contadora Group. However, the truth is that at the end of the '70s, say up until 1979, with the clear victory of the Sandinista Revolution in Nicaragua, Mexico's relations with the Central American region were really of secondary importance. It is true that there had been moments of intense "rapprochement," even though it was short-lived in recent years. The first intimation of the difficulties in the Central American region was perceived by Mexico in 1954 due to the downfall of Arbenz legitimate-

ly established government in Guatemala. When Ubico was overthrown in Guatemala, in 1944, by a coup d'état, by a revolution, the Mexican government officially announced its sympathy with that régime in which it felt an identification with the origins of the modern Mexican state, the Revolution of 1910. Therefore, when President Arbenz was elected by constitutional means and was then overthrown, Mexico strongly opposed this situation as much in its unilateral statements as in the framework of the 10th International American Conference held in 1954, in which a resolution of anti-communistic character was passed and was only objected to by the Mexican and Argentinian governments.

M. Dupras mentioned the difficulties in which the OAS finds itself at the moment. It is worth pointing out that since 1954 Mexico started to show some doubts about the orientation and, at a certain moment, the ability of the other governments to administer the OAS against legitimately established governments.

After 1954, after the Guatemala incident, a few years follow with little "rapprochement" in the relationship with Central America and, curiously enough, it was Guatemala, in 1958, that presented a difficulty for Mexico. This occurred when Mexican fishing trawlers were attacked by the Guatemalans; the former were apparently in Guatemalan territorial waters; this led to the breaking off of relations with Ydigoras Fuentes' government from January to September 1959, when relations were reestablished. The small "rapprochement" with Central America did not have as much to do with Central America as with the more extensive orientation of Mexican foreign policy. It is a fact that this policy was directed, mainly, towards the relationships with the U.S. up until the end of 1970.

At a bilateral level, the influence of other countries on Mexican international relations was quite insignificant and, in any case, that of Central America was still less so; the truth is that this was also a result of the Central American situation itself. Mexico realized that these countries were dominated basically by dictatorships resorting to electoral fraud. The case of Costa Rica was exceptional, but the rest of the Central American countries offered few prospects for a relationship based on possibilities of reform and improvement of the area, so that Mexico did not show much interest in the Central American region. However, with the election of a presi-

dent such as Díaz Ordaz, a necessity of "rapprochement" with Central America was somehow put into action so as to be able to establish commercial and economic relations with the region. A solid and important kind of relationship began to develop, but it did not prosper greatly due to the difficulties in the region: a war between El Salvador and Honduras broke out in 1969, later called the "Football War." Most of the attacks took place on land. This relationship developed, not only into the interior of Central America, in terms of an integration scheme which worked very well, but also in terms of relations of the Central American region with powers external to the region, even if they were middle powers like Mexico. In such a way, a space was created for a Central American policy within the limits of a reactivation of Mexican foreign policy. This actually happened fully when Lic. Echeverría became president. This space was also not too intense but, at least, it did have greater meaning than in the past.

This new foreign policy, or if not new, this revived foreign policy of Echeverría's was related to some Mexican matters, and one of them was the stagnation of a development model in which Mexico had gone through long years of growth with stability. There was the necessity to diversify Mexico's contacts abroad, to be able to export more Mexican products and earn foreign currency in that way. These earnings diminished constantly, as was pointed out by President Echeverría, by way of external indebtedness or of direct foreign investment. At this moment direct foreign investment was barely flowing to anywhere in the world because of a recession which was already being felt in the industrialized countries.

With the reactivation of Mexico's foreign policy, at a bilateral level, with countries other than the U.S., came the important recognition that the famous special relationship, which supposedly established a bond between Mexico and the U.S., had come to an end, as it had become evident that Mexico had been unable to avoid the surtax of 10% on North American imports imposed by the Nixon administration and, later on, it also could in no way escape from the negative effects of the U.S. Commercial Law of 1974.

Therefore, Mexico's foreign policy was reactivated as much bilaterally as multilaterally, seeking to find new clients, new financial providers and also seeking to establish some minimum rules to modify the international economic order which Mexico found fundamentally unfair and, in

any case, made up of privileges for the industrialized countries and which maintained a negative 'status quo' for the developing countries.

In the reactivation of Mexican foreign policy, Central America also received its small part. From 1971 to 1975 various interviews were carried out, at the presidential level, between Mexico and the heads of state of the Central American countries, bringing out, curiously enough, the "rapprochement" with Guatemala, a country with which, as I have already pointed out, the contacts had always been specially sensitive and difficult. In any case, President Echeverría's "rapprochement" policy with Central America was without clear political guidance and the proof of this is that relations were maintained with such heterogeneous governments as Somoza's, on the one hand, in Nicaragua; Figueres' in Costa Rica, on the other; or Cruz's government in Honduras, or Molina's in El Salvador or Arana Osorio and Kejell's in Guatemala. I insist that this "rapprochement" is one which somehow reflected President Echeverría's objectives as much internally as externally. This was with respect to a principle of ideological pluralism which wa. very difficult to accept but was backed and consolidated by international debates, especially at the time of drafting and editing the Letter of Economic Rights and Duties of States, which confirms matters of this nature.

Again, however, in Central America Mexican foreign policy was regarded, in general terms, with some suspicion, because of the kind of political régimes which, with the exception of Costa Rica and Panama, prevailed at that time: Mexico's "rapprochement" towards, for example, Chile or towards Chile and the Government of Popular Unity, or towards Cuba or, even, the defence made by Mexico in the confines of the OAS of the concept of ideological frontiers in the name of that pluralism which it defended, apart from the Third World positions of the international fora such as the UNCTAD. That stand, undoubtedly, alarmed some of the Central American governments. They also insisted that any kind of "rapprochement" on the part of Mexico towards Central America, still within the Third World political frame, had traces of subimperialism. This had constantly been one of the things criticized by the Central American countries with reference to Mexico. This attitude somehow reproduced some of the complaints by Mexicans against the U.S.

That situation continued there without any major changes, until 1979. The year 1979 and the victory of the Sandinista Revolution in Nicaragua coincided with a series of important matters which have to be taken into account: First of all, the commencement of hostilities took place simultaneously with the coming into power, in Mexico and the U.S., of two new administrations. In the case of Mexico, President López Portillo; in the case of the U.S., Carter, with a slightly different policy and vision, with greater emphasis on matters such as human rights, with the need to resolve the difficulties with Panama through the signing of the Torrijos-Carter accords, and with a different attitude shown towards Nicaragua. This attitude has caused the Reagan administration to accuse Carter publicly and openly today of having lost Nicaragua for the U.S.

In the case of Mexico, the Central American situation did not play an important part at the beginning of President López Portillo's administration because the country was then going through a serious crisis. The president decided to speed up the measures necessary for the recovery of the national economy. As this crisis involved the Mexican economy with that of the U.S., it might not be wrong to say that in the first two years, López Portillo's foreign policy tended towards settling difficulties which Echeverría's Third World policy had created for the U.S.

However, by 1979, things had already changed due especially to Central American events: the victory of the Sandinista Revolution, the problems that were already appearing in the very concrete case of El Salvador or Guatemala, presented the situation in a different way. At that moment there was also a Mexican occurrence which should not be completely ignored and that is the appointment of a new Chancellor at the Ministry of Foreign Affairs: Ambassador Jorge Castañeda, who had a Central American outlook and policy to offer the president and, even more important, who was able to discuss Central America with him. This Central American policy is the one adopted. It is a policy of support for the victorious revolution in Nicaragua and, if not of support, a recognition of the legitimacy of the various factions involved in the fight in El Salvador. Yet, the famous joint communiqué, Mexico-France, in the case of El Salvador, was costly to Mexico because it really contributed in a very important way to the isolation of Mexico in the Latin American region. The proof is the not very favourable reaction this communiqué received, in general terms, within the Latin American framework.

Mexico established very clearly the reason for having stated its position in the joint communiqué. There followed declarations in the sense that this statement did not represent a rupture with the traditional Mexican position of non-intervention. On the contrary, what is reflected was a recognition of the other principle: of self-determination and of the capacity which must be recognized of the different features to play an important role in the reconstruction of an El Salvador more in accordance with the wishes of the people.

This isolation of Mexico in the Latin American context was partly a result of the Mexican-French declaration, but also of the actual events in Latin America. During the last few years a moment like the one experienced by Echeverría, the one that allowed him to present a stronger or wider policy of the Third World with a certain amount of Latin American support - this has not been repeated. If you remember, at that time there had been very important moments in the opening up and in the democratization of Latin America. There had been a Torres in Bolivia who, even if he was expelled, due to a coup d'état, had left an impression, in the sense that the military was capable of having a project which differed from the dictatorial or the repressive. There had been and there was a Velasco Alvarado in Peru and that is very important. Carlos Andrés Pérez was in Venezuela, and they associated themselves with some concrete proposals, with the matter of the Latin American economic system; for example, as a request for defence of Latin American interests, solely and exclusively Latin American. There was also Allende in Chile and in the Caribbean, Cuba and Jamaica had governments which were possibly a little closer to some of the Mexican positions. The fact is that there was a very important clientele or constituency of governments which supported more progressive measures for the Latin American continent.

In 1979-1980 the above is no longer the case. There is talk about the possible Brazilian opening, but we know perfectly well that this did not consolidate itself until much more recently with the victory of the opposition in Rio and in São Paulo. There is also talk about the exhaustion of the Argentinian process, but this is not a fact until the losing of the Falkland War and one clearly sees that the process has completely deteriorated. There is talk of, possibly, a return to democracy in Chile but

the referendum which was made does not show it in that manner. In such a way that the Latin American continent, from 1979-1980, when we see the isolation problems of the Mexican case, is very militarized or not very democratic. Mexico was not going to find allies in Latin America, not until much more recently when the change of power in Colombia allowed for the realization of a proposal such as the formation of the famous Contadora Group.

Since 1983 the existence of some governments in Latin America, such as those in Colombia, in Venezuela, in Panama and Mexico's own government, opens up the possibility of looking for negotiation and the peaceful solution of the controversies in Central America. Not only is the existence (concretely President Betancourt's presence is very important) of the good will shown in some of these countries very significant, but obviously the mounting tension in the Central American region is going to play a very important role. Apart from the reason that there are countries, among those I have just mentioned, that are closer to Central America than others; in other words, Panama and Mexico obviously have borders and they are much closer than Venezuela and Colombia are; but there are countries immersed in an area where the repercussions of the spread of the war in Central America will be devastating.

In the concrete case of Mexico, and I am sure that it is the same in the cases of Panama, Venezuela and Colombia, Mexico gives its support, and maintains principles as important as those of non-intervention, self-determination, etc., apart from altruistic interests, the peaceful attitude or moral capacity which a country like Mexico has, and also apart from all those matters which have to do with Mexican defence and security. I believe this is something which the Mexican government has never denied, has never hidden. It may not have appeared with all its weight at some moments, but it has been present in all of Mexico's efforts at negotiation.

The Contadora Group has a very interesting chronology; this could be a very long talk, but I would like to concentrate basically on what seems to be interesting and new. As M. Dupras said, the effort of the Contadora Group to negotiate has received the support of innumerable governments, amongst which the most outstanding is the Canadian government. It has not only received direct support but also indirect support through Resolution 530 of the UN Security Council whose main intention, above everything else, was to

point out the enormous difficulties existing in Central America, and to avoid somehow (a good move by the Nicaraguans) the creation of an Inter-American Force for Peace, a matter strongly opposed by the Mexican government on this occasion just as had happened in 1965 in the case of the Dominican Republic. Another intention was to open the discussion of the Nicaraguan case at a much more democratic time, for example, in the UN and, at a certain moment, in the OAS and that, finally, produced a resolution which received impressive support from a considerable number of UN delegates, obviously backed by their own governments.

Therefore, the effort made by the Contadora Group is perceived by Mexico as an effort of great importance and Mexico has gone to each and every one of the meetings of the Contadora Group, always prepared, and having done its homework before each meeting (this refers to a meeting of ministers or of undersecretaries of foreign affairs). It would be interesting to point out that the activity of the Contadora Group has basically been oriented to contribute, through diplomacy, to finding the solutions to the conflicts in the Central American region; in that sense, the governments of Colombia, Panama, Mexico and Venezuela have looked for and have not lessened their efforts to reach an understanding between the states directly involved.

The Contadora Group's chancellors, and here is where the brief description comes in to see, day by day, at what point we have met periodically with their opposite numbers from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua .... the first meeting was held from the 20th to the 21st of April, the next from the 28th to the 30th of May and the third from the 28th to the 30th of July, 1983. These first three meetings permitted progress in defining an agenda. The Contadora Group's chancellors have a vision of the Central American problem which they are in no way trying to impose on the Central American countries, but it is necessary to negotiate with those countries. Therefore, during those first three meetings they sat down with the Central American chancellors to ask them for their opinions on the main problems affecting the region. From those three meetings a confirmation emerged of an interesting agenda. This agenda is made up of four main chapters. The first chapter is called "The Principles" and it tries to review all the principles that relations between sovereign states must abide by, with special reference to the Central American case. Let us say that this chapter would be the

political section of the document, the section of the declaration of principles and the establishment of good faith and the desire to reach negotiable solutions for the region.

The second chapter in the agenda is called "Problems of Security." Here the basic problems of the Central American region appear, because even if Mexico admits that the origin of these difficulties is of an economic and social character, the immediate projection, maybe the most difficult one to discuss at this time, is everything that affects security and which is related to arms, with military bases, with military associations, with what has been named "acts of destabilization," that is to say, not only the armed attacks but also verbal attacks, in other words the accusation as much at an official as at a non-official level but, undoubtedly, somehow authorized officially such as the campaigns over the radio. These kinds of matters constitute a heavy agenda brought up in this second chapter.

Then there is a third chapter, of problems affecting the region and which are economic and social questions. There the obstacles obviously involved are those which, at this moment, confront Central American economic integration. Human and refugee rights are also involved and the necessity of carrying out a series of concerted actions also comes in so as to try and consolidate the economic and social development of the region: a frustrating problem or aspiration; Mexico had pointed this out on various occasions and had done so in 1954 at the time of the Tenth International American Reunion. Mexico has always repeated this position that the frustration of the expectations of economic and social development are found at the origin of the problems, not only of Central American problems. Long meetings have taken place, to try to determine (1) which were the principles, (2) not only what were the security or economic problems, but in a very important way, how to solve these problems, how to solve the arms problems, obviously with regional disarmament, but how to implement this regional disarmament, what kind of agreements disarmament would involve in terms of the conflicts taking place between Honduras and Nicaragua, for example, or between El Salvador and Nicaragua. This is what chapter four of the agenda has concentrated on and it is called the "Nature and Control of the Agreements." In other words: Are there going to be multilateral pacts? Or are there going

to be bilateral agreements? What characteristics would a bilateral agreement have? Would it be a memorandum of understanding? That is to say that it would not be obligatory, or, would there be non-aggressive pacts between individual countries? Obviously the discussion of these matters, the implementation, the working through the agenda took a long time and is still taking a long time, even though I believe that an interesting agreement has somehow been reached.

In the interim, the necessity not to lessen the efforts in the search for peace for Central America, led to the meeting of the presidents of Colombia, Mexico, Panama and Venezuela in Cancun in July 1983. There the four presidents of the Contadora Group adopted a declaration called "The Cancun Declaration for Peace in Central America," dated July 17th, 1983, which allowed for the establishment of the first frame of reference, thus providing relief to the agenda. The Declaration of Cancun already had concrete commitments; commitments, for example, to put an immediate end to warfare in Central America; commitments to reduce drastically the number of military advisors in the region; commitments to prevent, and, if they were established there, to remove foreign military bases in the region; ten specific and clear commitments establishing a whole mechanism of negotiation, already very well defined.

As a response to this effort of the Contadora Group, the Central American countries also presented their own proposals. It is no secret that the group of Central American countries is found, as was found, especially at that time, to be very divided due to reasons related to the fact that four Central American countries consider that Nicaragua is the aggressor. Therefore amongst the countries of Central America there are, on the one side, four Chancellors and, on the other, Nicaragua. It is also no secret that in the case of Mexico there is, if not a commitment, maybe a major and better dialogue with the Nicaraguans than with the rest of the countries. This has been denied consistently by Mexico, because it is not an actual fact. There is something, which I do not like, called "sympathy" with Nicaragua's revolutionary process, because I do not believe that in politics "sympathy" counts for anything, I believe that there is understanding on the part of the Mexican government of Nicaragua's process, because it is a revolutionary process. In short, what has or has not been accomplished does not come into this discus-

sion, but there is a complete understanding of what the revolutionary process has involved in Nicaragua. Yet a commitment in favour of Nicaragua's positions does not necessarily exist. In any case, the Mexican government has made great efforts in trying to build bridges and reconcile positions as difficult as the ones that, on one hand, separate the four Central American countries and, on the other, the fifth Central American country, Nicaragua.

In the Declaration of Cancun, clear points of view were expressed: on the one hand, the positions of Contadora's governments at Cancun with the master document of the four countries involved in the Central American efforts for peace; on the other hand, Nicaragua's points of view and also the points of view of the governments of Central America. This led to a recent meeting of the undersecretaries of the nine countries concerned, who sought the completion of a common document which would reconcile the varied points of view of the different Central Americans. A document was drawn up called "Document of Objectives"; this was agreed upon by the undersecretaries. Subsequently, it was distributed by them to the nine ministers who, at the last meeting held on the 9th of September, managed to agree almost entirely on the document (ad-referendum) as happens in all these cases, that is to say it must be ratified by the governments of Central America, if Contadora's effort is to produce results relatively soon. It is likely that this ratification will soon be achieved.

It is important to point out here that the "Document of Objectives" is a document which manages to approach and conciliate (obviously in the framework of the Cancun Document, as it is an effort on the part of the Contadora Group) the positions on Central American proposals: Nicaragua's on the one hand, and, on the other, the rest of the Central Americans. It is a consensus document which, even if it does not literally reproduce the specific representations of each country, does identify the fundamental common grounds which assure the attaining of a harmonious "living-together" of the countries of the region.

The "Document of Objectives" starts with a diagnosis of the regional crisis and, on that basis, outlines the objectives of the governments of the region. It proposes concrete measures to promote expansion and put an end to conflict situations in the area, foreseeing action mechanisms to achieve such objectives. It is a document with a number of compromises and it has the following structure: Firstly,

the basic principles of international "living-together" are confirmed and it includes commitments directly related to the matters that cause concern to Central American governments and which are part of the agenda previously supported and agreed upon by the Chancellors.

The following are a list of suggested commitments, considering that the situation in Central America has deteriorated recently. Principles are reaffirmed such as non-intervention, self-determination, peaceful co-existence, etc. The nineteen specific commitments are devoted to:

* the promotion of the easing of tension in the region
* the fulfillment of the principle of international law
* the respect for human rights
* the adoption of official measures for the establishment or improvement of democratic systems
* the creation of political conditions designed to guarantee international security and the integrity of the states of the region
* the control of the arms race in all its forms
* the elimination of foreign military bases
* the reduction and eventual elimination of the presence of foreign military advisors
* the establishment of internal control mechanisms for arms trade
* the prevention of the trading of arms by people, organizations or groups who try to endanger the governments
* the prohibition of the use of the territory for activities against other governments
* the abstention from supporting terrorist acts
* the establishment of a communication system with the objective of preventing incidents
* the assistance and protection of refugees
* the promotion of economic and social development programmes
* the revitalization of mechanisms of economic integration
* the administration of foreign monetary resources and the improvement of access to the international markets in a united way.

These are the kinds of commitments clearly specified in the "Document of Objectives." Obviously this document also refers to the need for these listed commitments to be incorporated into instruments of international law, into treaties, pacts, etc. They must be made valid through a document of unique obligation.

Leaving the above to one side, the only thing left to

point out is that the Contadora Group's negotiation has not ended; let us say that a very important first phase has been completed, there is an agreement which imposes an obligation upon the five Central American countries but in whose conception and construction the four Contadora countries actively participated. They therefore try not to impose a settlement nor to favour one country over another, and, finally, they try to maintain a commitment of the countries of the Contadora Group together with a commitment of the Central American countries that they will all continue to search for these mechanisms, to mould these commitments into universal obligatory mechanisms for the countries in the region.

I would like to finish off by pointing out that it is very important that the efforts of the Contadora Group continue to be made in matters like those I have just pointed out. But, apart from this, the political commitment of the countries directly involved must be present in the agreement. This is, of course, very important at, obviously, the Central American level as much as at the Latin American level, generally; but it also is of great importance to Mexico. I mentioned, a few minutes ago, that Mexico has never hidden the fact that in the peacemaking efforts of Contadora, Mexico has also been playing the role of the Central American peacemaker for reasons of national security; in other words, because Mexico has received a series of pressures in the past and it can continue receiving them from all the sides involved. For Mexico it constitutes a very important goal of its foreign policy, but also a goal of its international policy in terms of its national defence or security concept in which the situation in the Central American region will be resolved.

I hope that with this I have more or less made clear the position, if not the official position at least the degree of involvement of the Mexican government in the effort of the Contadora Group and the degree of progress of this group in achieving peace in the region.

Prof. Manuel A. Chavarría
(Centro de Estudios Internacionales,
El Colegio de México):

Some Central Americans welcome Canada's recent interest in what is happening in that narrow part of the American con-

tinent. Thus, when an amnesty law was granted in El Salvador it caused great uncertainty among the political prisoners because Mr. Magaña's government would not give them even the most elementary guarantees. But it was the Canadian government, jointly with that of Australia, who then magnanimously opened their doors to shelter those people whose only sin was to dissent against the government, the military and the oligarchic groups. Not only were the lives of a number of those students, professionals and labour union leaders saved by the generosity of those friendly governments, but they now enjoy economic and spiritual security without restrictions or conditions.

Canada's geographical position in the hemisphere plays a useful role in at least two ways: first, because of its proximity as well as its economic and historical ties with the U.S., it is probably the American country best suited to understand the idiosyncrasies of the Reagan administration. It is therefore in a good position to exert a positive influence in the search for a settlement by negotiation to the Central American crisis. Second, and in contrast to the Contadora group, because Canada's visions and perceptions of the Central American problem are not clouded or biased by the nearness of the region. Some Central Americans even have the feeling that it is not their problem but those of the Contadora nations that in fact prompted the peace proposal: Mexican national security interests, Venezuelan unresolved territorial disputes, Colombia's struggle to restore its prestige abroad and Panama's struggle to attain true economic and political independence. Thus, by having no common borders with Central America, Canada can view the crisis in an important and objective way.

Those who inhabit the region are peaceful people. The violence that prevails in the zone is the product of stubborn civilian and military hegemonic groups for whom the bells have already tolled. Yet they insist on hanging on to their privileged positions using the guns and weapons supplied by the American government and to a lesser extent by its Israeli partner. Had they supported the efforts to achieve democratic forms of government in the last 20 years instead of backing oppressive dictatorships, the problem of violence would have never arisen. Violence comes from wanting to make the interest of one state or group prevail without taking into account the interest of the others.

A quick review of facts in the area shows the following:

1) The Salvadorian civil war is still the core of the crisis; however, the Reagan administration is still seeking a military solution, making most of the efforts to attain a political settlement useless.

2) The U.S. government's aims in Nicaragua have clearly shifted from a mirror-image destabilization programme to one directed at the overthrow of the Sandinista government.

3) The peace efforts of the Contadora Group will prove to be futile if they are not able to persuade the Reagan administration to really work for a peaceful solution of conflicts in Central America.

Once the region has attained peace through negotiated settlements, however, it will be necessary to provide the economic and financial aid needed, dispel the apocalyptic spectres of war and hunger and achieve acceptable levels of consumption and investment.

Additionally, the economies of the region need not follow a worn-out traditional capitalist development path, nor obey a centrally planned bureaucracy to which they are totally alien. Insofar as they are permitted to do so, the Hispanic people will find the ways of economic organization that best suit their human and natural resources, thus establishing the foundations for the democracy they want.

Central America will find the mode of production that, on the one hand, will guarantee the fulfillment of its basic needs, saving what is necessary to give continuity to the growth and development process. On the other hand, that mode of production must inhibit excessive accumulation of wealth and power in the hands of a few groups or individuals even though that may not always be economically efficient. Canada can help the Central American countries in a significant way without necessarily entering into conflict with its immediate neighbour to the South, and perhaps in this endeavour Canada will find the answer to those questions that so far have kept it from participating more actively in the life of the American continent.

The floor is opened for discussion:

Dr. Wright:

I wonder if I could ask Prof. Rosario Green what efforts are being made to communicate the progress made by the Contado-

ra Group to the two superpowers who must closely be watching the region and are involved in the region? And what has been the reaction to those communications on the part of the Soviet Union and the U.S.?

Prof. Ma. del Rosario Green
(Instituto Matías Romero de Estudios Diplomáticos):

Referring to the Cancun meeting, for instance, President De la Madrid together with the other Presidents in Cancun decided to send letters to several countries and one was, of course, to the U.S. The Reagan administration answered that letter and its response was even published by the Mexican press, and also by the New York Times and other American journals and newspapers. It was also sent to the U.S.S.R., but I don't know anything about their reactions as such. The Cuban government also received a letter and their reaction was a positive one. Castro, in his letter, said that he was all for the Contadora Group, and that he was willing to support any of the advances of this particular group.

For those who believe that there is a strong and automatic connection between Cuba and Nicaragua, you will be interested to know that right after Cancun, Nicaragua's position became a bit more flexible than in the past. So, I am not implying that there exists any connection because I do not believe in that connection, it has not been proven yet. But due to the Cancun effort, some of the most inflexible positions or those considered by the public opinion as the most inflexible, were relaxed; this has been stated in Castro's letter which was if not published at least circulated quite widely, and it was also proven by the attitude of the Nicaraguan régime. The Nicaraguans are now willing to talk about things that they were not willing to in the past. For instance, the idea of national reconstruction, national reconciliation, those were topics that the Nicaraguans did not allow before and now they do. This is due, in part, to the isolation in which Nicaragua is put in the context of the Central American countries and because of the political will of the Nicaraguan régime to finally participate in a pacification effort or achieve the goal of reaching peace for the area.

Prof. David Pollock
(Carleton University):

Previously, a suggestion was made that Canada might act on the comment that Profs. Green and Chavarría made about the third point on the agenda of the Contadora group, namely social and economic development. The suggestion was made that perhaps it would be helpful if the Canadian government would consider providing financial support for study of the economic and social reconstruction and development of Central America. This was put forth as one point among many. I am curious to see how all three speakers might respond to that idea. Is the idea of an economic and social reconstruction and development programme for Central America already underway elsewhere? Or, if not, or if only partially underway elsewhere, could Canada help in a manner consistent with Canadian efforts to facilitate development as a stability objective rather than to involve security issues?

Mexican delegate:

I understand that the Economic Commision for Latin America (ECLA) is carrying out studies relative to the reconstruction of the area; not precisely at this stage but it is moving in that direction. Most probably if Canada is interested in promoting those kinds of studies it would be a good idea to speak to the ECLA people and find out what they are doing exactly.

Prof. Ma. del Rosario Green:

I also understand that ECLA has undertaken the responsibility of producing a very comprehensive study on the social and economic problems of the area. It has done a very good job in the past and ECLA has all the materials and the information. Possibly several studies may show up more things than one single study. In my opinion, what really is needed for the area, more than the studies that ECLA is carrying out, would be financing for certain projects, and Mexico and Venezuela are helping through the San José Pact, such as providing oil on easy,

terms, etc. Maybe the Canadian government could devise some mechanism to help and sustain some of the projects that, in spite of the difficult situation right now in Central America, are still in progress.

A Canadian delegate:

I wonder if I could ask Prof. Green whether this project would be the fruit of consultation among the nations of Central America involved? Whether it would answer the views of the countries?

Prof. Ma. del Rosario Green:

It would have to be decided in consultation with the governments, otherwise it would be very paternalistic.

The same Canadian delegate:

But would we go beyond economic needs? Should we not perhaps begin by establishing a moratorium on military actions?

Prof. Ma. del Rosario Green:

Maybe some of the loans that these Central American countries have with the Canadian government could be negotiated on a different basis. In quite a few instances cooperation is not only possible but is needed.

Prof. Víctor L. Urquidi
(El Colegio de México):

Here is a clipping from the Financial Times (16th of September). A meeting was held in Brussels chaired by the president of the Inter-American Bank in which six Central Ameri-

can countries discussed their foreign capital needs, to recover by 1990 the standard of living they had in 1980. After all these years of declining per capita income they really have a very big job to achieve that goal and they estimate that they will need 23 billion dollars in foreign capital in-flows by 1990.

Prof. Zavis Zeman
(Institute for Research on Public Policy, Toronto):

I have a question for Prof. Green: What would the Mexican government's position be towards the Pastora group in Nicaragua?

Prof. Ma. del Rosario Green:

You have really asked a difficult question. I can only tell you about my position. To begin with there is official recognition of the Sandinist Junta, the one which is right there now with Ortega and the rest of the people. Any action outside that government and in particular to overthrow that government would not, for the time being, be viewed favourably by the Mexican government.

I do not think there has been an in-depth discussion vis-à-vis the Pastora group, although we are all aware of what is going on: the D'Escoto house being attacked by airplanes and the connection with the Pastora group there. If you are asking what the Mexican government's position would be if the Pastora group won, I don't think the government of Mexico would react positively towards that group or any other group overthrowing the Nicaragua régime. I do not know if that answers your question because this is really a matter of opinion; the issues have not been discussed, there is not anything I can give you as the official position of the Mexican government in that particular case.

A delegate:

I think it would illustrate the problem if one considers the fact that the Pastora group tried to hold a public relations meeting here through a press conference some 60

days ago, and they were immediately expelled from Mexican territory.

A Canadian participant:

I have a question for Prof. Green and perhaps the other speakers as well: a specific question for clarification or an interest in the relation between the Central American problems and the situation in southern Mexico --not specifically the problem of the refugees who have been coming into Mexico in increasing numbers, but also some of the local problems in places like Chiapas.

What I am asking for is a brief summary of analysis of the Mexican government's perception or attitude towards the refugees. The reason I ask this is because the present news and literature on the refugees show the political problems in Chiapas and the fact that there are obviously tremendous similarities between Chiapas and Guatemala in terms of the Indian population problems over land tenure. I am asking for some clarification of the point or statement by Prof. Green about Mexico's concern with their own security in terms of finding a solution to the Central American problem.

Prof. Ma. del Rosario Green:

I guess it is no secret that Mexico does not have a very clear policy vis-à-vis the refugees coming from Central America. This is a very easy thing to see and understand because we did not have that problem in the past; this is a completely new problem for Mexico. Most of the refugees and political refugees that came in the past came in small quantities; such as the Spaniards or even the South Americans, they did not come running away from a difficult situation in order to find better economic opportunities, jobs, etc., they came here because they were persecuted by their government or they had political affiliations that could not be helped in those difficult times in those particular countries.

The refugees coming from Central America give a completely different problem to the Mexican administration. To

begin with, a great number of them are what we call economic refugees, they come here because they are fleeing from a situation in their countries with very few opportunities and lots of difficulties such as war and misery; some of them also come because of political reasons. The refugees coming into the southern states of the Mexican Republic give very serious problems to Mexico: first of all, they put pressure upon a very reduced supply of employment in that particular area. Secondly, when a Mexican goes to the U.S. he looks so different that he is immediately identified and is asked questions and, probably, if he is an irregular or an illegal worker, he will be sent away. In the case of our border with the Central American countries this is not possible, we look very much alike, we speak very similarly so it is therefore very difficult for the Mexican government, in many cases, to separate the Mexicans from the Central Americans and to try to devise mechanisms either to help them or to stop them from coming.

When one talks to the people in the Ministry of Internal Affairs or those in our Ministry of Foreign Affairs, they will say that we do not have a clear picture of how to cope with the problem. We have a Chiapas Plan right now trying to help develop the state of Chiapas; in the first place to help the people who live in this state because this is the poorest state in Mexico and, in the second place, to try to gain a clear impression of what is going on there with the refugees. If they are political refugees then we have a different attitude towards them because they are protected by the Mexican laws. But if they are a different kind of refugee then there is not a very clear policy; people from the Ministry of Internal Affairs can tell you that they design a policy towards these refugees every day because they are on a trial-and-error basis. We are not prepared yet, we are not ready to have a unanimous policy and we comprehend that we have double standards: we ask one thing from the North and we provide another for the South.

We, unfortunately, do not have the data to answer questions on that particular topic and in the very concrete case of the Ministry of Foreign Affairs, at the Institute where I work, every day we are preparing papers and, at this moment, we are organizing a seminar on that particular issue and we are inviting academics because they may know more or they may have studied the problem with more attention, they could provide us with ideas. We know there

is a problem, we know that there is an injustice there, we know that we are arguing over the same things that the Americans are vis-à-vis our workers. We know that the situation in Mexico is completely different from the situation in the U.S. We know that crisis or no crisis, Mexico is not able to offer all those jobs that are needed, not even for the Mexicans because we have some very basic problems in this country. We know that it is not a good argument to say: "Do not come here because you are taking away the jobs that the Mexicans want."

In any case, the more I try to think of an answer the less I come up with one, it is very difficult, we realize that there is a gap between what we ask for and what we provide, and that it is a matter of time and goodwill before there is an opportunity to think about and design a new policy.

Prof. Manuel A. Chavarría
(El Colegio de México):

I would like to add the following: there are individual Mexicans, private groups helping the refugees. They have given training to a great number of Salvadorian people in Guadalajara and they are locating them in special areas. I do not know if the Mexican Chiapas plan envisages any specific points relative to the refugees. The only two refugee receiving countries that have implemented special official policies relative to those refugees are Nicaragua and Costa Rica.

Prof. Ma. del Rosario Green:

There are private groups helping the Salvadorians in Mexico, for instance, and most of those groups are connected with the Church in this country, in the same way as in the U.S., there is the Santuario Movement and thousands of religious people and congregations are helping these people even though there is a fine and even imprisonment in the cases where this is discovered. Therefore, this help is connected to different churches, also in Mexico, it is not official.

Prof. Víctor L. Urquidi
(El Colegio de México):

I should like to comment on M. Dupras' presentation. In the 1950s moderate and progressive Central American people started to be concerned with development in a modern fashion (in Guatemala it started in the 1940s in a very small way); Central America would no longer consist of backward countries, the banana republics exporting bananas, coffee, cotton, sugar, cacao, etc. but they were to modernize, to industrialize, to lay down infrastructure, etc. They received support from the UN, ECLA (Economic Commission for Latin America), they set up their own Committee of Ministers of Economy to promote integration; it was not only understood as a Free Trade Association development towards a Common Market but also as many joint endeavours to transform Central America gradually. They had, of course, support from the World Bank Financing Officer: loans for electricity developments in Costa Rica and El Salvador and, in fact, in every country. It also included many other things but we need not go into details. I can speak of this development because for seven years I was directly involved in the post that is now held by Dr. Rosenthal in ECLA here in Mexico. We perceived that as an authentic desire of the more progressive people of Central America to change; they were conscious of the times: Central America with its past history and the strongly entreched bougeoisie, and agricultural bourgeoisie, the landowners, budding military groups and the notorious Somoza family in Nicaragua which all constituted strong forces of resistance, very often supported by outside èlements, call them United Fruits, etc.

These groups, in my opinion, looking backwards now, never learnt from the Mexican experience of "Revolution," actually social reform with some aspects of revolution, especially the policies carried out by Mexico in the 1930s and 1940s, they never learnt the lesson: that you cannot hold onto absolutely rigid structures with growing rural populations of poor people. If you were to travel in El Salvador you would realize how the people lived on the farms and on the roadsides when they went to pick coffee at the big farms belonging to the 14 families, 21 families; and then there are the peasants in Honduras, Guatemala's indigenous populations in the mountains with very high mortality, etc. Therefore, these entrenched people, often supported by out-

side interests, never really understood what social change meant even in terms of the less than efficient methods of the Mexican process of development. They did not even understand what was going on in Costa Rica; Costa Rica being the one truly democratic country of Central America where the grass-roots democracy arose from small communities in the upper parts of the country where farming conditions were favourable.

The development and integration process worked for a while. There was support from the outside; you had, after all, the Alliance for Progress coming in and supporting all that. It was well looked upon by other countries, even by Mexico, to some extent, although Mexido did not help very much but it did not oppose it, on the contrary, Mexico had had its fingers burnt a little with the Arévalo Arbenz period in Guatemala and the overthrowing of Arbenz by Castillo Armas backed by the CIA. That is sufficiently well documented. Mexico, of course, did not like Nicaragua's regime but Mexico's policy was one of traditional non-intervention; that policy has now been changed, of course. Therefore, Mexico has had some benign neglect for Central America but the latter had international support in all these endeavours.

The result of the integration processes was a Common Market Treaty and a long list of other mechanisms of cooperation and the setting up of their own secretariat for integration: the SIECA in Guatemala. All this was successful up to a point at which the weaker countries, the weaker links in the Common Market, as happens in all common markets, found they were at a disadvantage and could not work out their differences and this was notable with Honduras. This was aggravated by the Honduras-Salvador conflict, which was a border conflict and had to do with the settlement of the Salvadorian population in Honduran agricultural areas and many other factors. It also was related to the fact that the process of industrialization occurring in Central America, which led to a large increase in intra-Central American trade, was essentially one of transnational corporations because the U.S. in the late '50s and early '60s strongly opposed the mild efforts that the Central Americans were trying to carry out, to plan their industrial development. There was a scheme for that and the U.S. sabotaged it in effect, because this, according to the U.S., was against free enterprise, it was going to create monopolies, etc.

In the late '60s the process of integration started to break down. Since then there have been world recessions, declines in foreign prices, a number of difficulties and of course the pressure coming from below was increasing in Central America, because there was very little social reform; there was hardly any land reform anywhere; the Somozas held on to everything in their country, so the pressure was building up and it had to explode somewhere, as it did in Nicaragua and in El Salvador, with very little possibility of bringing together the extremes and a weakness of the moderate forces.

The moderate forces in the last few years have practically been wiped out in Guatemala through assassination, all our good friends have been killed in Guatemala, in El Salvador, those who were moderates; economists, lawyers and many others have gone into politics, others have fled. Everybody sat by and looked at this disastrous polarization, especially the entrenchment of the right-wing military in line with the majority of really extremely "ultra cavernarios," coffee growers of Guatemala and El Salvador and many others; people totally opposed to anything that you could remotely call social change.

In this boiling pot in Central America, obviously with the elimination of the moderate forces or their neutralization, the left was bound to be infiltrated by the communist left, that is, all the various factions of communists, Trotskyites and others, and this naturally would attract the attention of Cuba and of those backing Cuba. This increased polarization and the U.S. began to take gradually a more active interest in not only maintaining the status quo which they thought was more or less satisfactory, but in actually combatting these more progressive forces.

In recent years the Central American Integration Scheme has largely become disintegrated. It is, in fact, in a state of collapse at the moment, in spite of the extraordinary efforts of the ECLA and SIECA people, and Mr. Rosenthal here to keep this alive and to find ways of promoting it. There has been this fear of violence in Central America which has led to the gradual emigration of some of the best people, it has now turned into a massive emigration not only of peasants persecuted along the border of Guatemala but the people that Prof. Green mentioned that have come to Mexico, to the U.S. and other places.

There has been a general climate of instability. When

the Nicaraguan Revolution took place there was an overflow of sentiment, just as had happened in the case of the Cuban Revolution in Mexico and with Allende in Chile, in spite of what Prof. Green says, of actual sentiment in favour of the Nicaraguan Revolution. That was a good thing, whoever was involved, in fact those Nicaraguans were backing the revolutionary race against the Somoza family. It was not clear, as it was not in the case of Cuba, to Mexicans, not even to people in the government, that there was a component in this Revolution that was not strictly a Nicaraguan democratic alternative; it was something that had links with the outside; as it was not clearly realized by many people here that the revolutionary forces of El Salvador also have that strong component, in fact they are bound to be everywhere. How this escalated after the Carter attempts to somehow meet the desires of the Revolutionary government of Nicaragua and also with help from Mexico, Venezuela and others, how all this developed into what it is today is the product of the minds of certain people in the U.S., behind Reagan, who have decided that Nicaragua was a threat to U.S. security with its links to Cuba; their links were very obvious in the technical field and now they are in the military and security fields.

It seems to me that the U.S., at some point, made up its mind that it was going to dethrone the Sandinistas and also prevent a similar revolution from taking place in El Salvador or elsewhere: Guatemala for example or Honduras, and they did it in the cruellest fashion of the 1920s by supporting the strong men of the place and the counter forces. They harboured the Somozistas in the U.S., and started to arm and train them. We need not repeat the story. Today we have an occupied country: Honduras, occupied by the U.S.; with Nicaragua turning itself into a fort with the help of many countries or with whatever they can buy elsewhere and with the obvious support of Cuba.

Today there is an announcement in the paper that the Nicaraguans are getting anti-aircraft equipment from Cuba, in view of the attacks on the airports the other day. The whole feeling that there might have been solidarity amongst Central Americans is totally broken. There is polarization everywhere, there is a stalemate in El Salvador, in spite of all the military assistance that the military government there receives; there were these sham elections which tried to cover the whole thing up; the sham pretence that there has been an improvement in the human

rights position of El Salvador. Mexico has therefore been caught in a very ambiguous situation because Mexico, contrary to its long-standing policy of non-intervention, has intervened. It has taken sides. I am not saying this of Nicaragua because Mexico's policy was always to support the government that came into power which apparently had the standing, even for a coup d'état. Mexico has had very few cases of not recognizing governments or of breaking off relations. However Mexico intervened in the internal affairs of El Salvador; they have also somewhat intervened in Guatemala in the past; the latter was resented by Central Americans but Mexico did it in a very subtle way, not officially. However, in the case of El Salvador it is an official intervention from the outside with the Mitterrand-Castañeda Declaration.

Mexico is therefore in a very awkward position because this taking of sides weakens Mexico's long-standing policy vis-à-vis the UN, vis-à-vis every country where Mexico stands for non-intervention, self-determination, the UN rule of law and peace, etc. Mexico has really taken the position that it would be good if the revolutionaries won in El Salvador; otherwise why would Mexico say that they should be taken into account in some compromises which cannot easily take place?

Contadora is, to my mind, at this juncture, a very important diplomatic initiative which has had the effect of slowing down the aggressiveness of the U.S. towards Nicaragua and it has had its impact in the U.S. Congress and somewhat on public opinion in the U.S. But how far can it go if the U.S. government really is to go all the way to destroy the Nicaraguan government? It may not; it may be satisfied by the fact that all this pressure has brought about all these relaxations in the Nicaraguans and they are forcing them to think twice, not to become too linked to Cuba and the Eastern bloc (they have Eastern bloc help there too) and to try to be more open. Whether that will have any effect or not, I do not know, but that has to do with the internal problems of Nicaragua.

There is an article in "The Economist" called "Lull in Central America" which ends up by saying: "President Reagan should look coolly and skeptically on the present semi-lull in Central America, but he can permit himself a first flicker of hope that the revolutionary tide there has reached a high-water mark." Unfortunately for Mexico, if there is such a lull it means that we have to face an

occupation of a Central American country by the U.S. army, meaning Honduras, which is something that we abhor; it is against all our traditions, all our policies, etc., this is why we oppose the Dominican Republic's landing of Marines, etc.

I offer you all these rambling comments and background because of M. Dupras' interest in helping define a Canadian policy or position towards Central America. I would leave aside the question of future Central American development, I am sure that Canada would cooperate in that, as it has cooperated in development of African and Asian countries; this is closer to home: the Caribbean, etc. This should not offer great difficulty, it is a matter of policy in Canada, how to link together the efforts of all the various organizations: the UN, IDB, Central American Development Bank, etc., once we get over this little difficulty which is not so little, the conflict in Central America. Therefore, your real problem at this moment is how to relate to the conflict and how to help. One obvious thing to do is to make known the limited but important value of the Contadora group proposals, commitments that Prof. Green has outlined so clearly to us, which already involve the Central American countries and at least make you hope that there is a will to reach some agreement. On the moral side: making the importance known is of great consequence and I hope that the Canadian media can reflect all these things because only the bad things about Latin America get into the press in the U.S. and Canada, and very few good things. When there was a little border dispute between Nicaragua and Costa Rica, the OAS convened. They passed a resolution and sent a team headed by a noted diplomat from Uruguay or Colombia or some place to talk to Somoza and to Figueres and solved the problem in about a week or so and the whole thing died down. This is something much bigger, even for the U.S., it exceeds the scope of the OAS. The OAS is therefore neutralized in this, apart from whatever else you may think of the OAS, which we need not go into right now but which we have been discussing a lot outside of these meetings.

This will therefore be the worst moment for Canada to join the OAS or to express a desire to join this organization because the OAS is inactive and, if you did join it, it would raise some kind of curious expectations: that you are taking sides somewhere, on the wrong side. The immediate problem is to support the Contadora initiative, to

support it morally in the UN, the General Assembly's meeting during the next two months. It will probably have this question raised and also try to produce moderation in positions; moderation is badly needed in Central America, there are very extreme positions all around. I believe that Mexico's position is that of being out on a limb and that it now needs some kind of moral support, too, because we are in a very difficult juncture in Mexico of being forced to maintain a militant active foreign policy with regard to Central America at a moment when we are extremely vulnerable in the international financial situation, not just today but during the next few years, and when we have local pressures building up because we have had to follow, inevitably, policies that keep the level of employment down, and that hold back the expectations of the middle class, which had been so prosperous in the last few years. Therefore, for the Mexican government it is a very unhappy combination of appearing vulnerable outside in foreign policy: in other words, if the U.S. decided to occupy Nicaragua there is nothing we could do about it except kick up a fuss at the UN, with pressures building up within the country.

There are some other things I would caution M. Dupras on: he thinks that the Linowitz-Galo Plaza Report is some kind of marvellous document, but it is actually full of holes, it is a very poor analysis and it is very self-serving. I hope that M. Dupras will read it with a more critical eye. On the other hand, it is very good to read about the evolution of Canadian policy with regard to these problems and the fact that there was a subcommittee in the Canadian Parliament and these very judicious statements of Mr. Trudeau and the Secretary of State in March 1982.

I do want to end with a word of caution regarding what M. Dupras said on page 6 of his paper with relation to El Salvador. It says: "Your subcommittee suggested that three conditions had to be met for elections in El Salvador: an internationally supervised cease-fire, serious negotiations between all parties to the conflict and an internationally supervised electoral process on the Zimbabwe model." It is not at all clear to us exactly what the Zimbabwe model was but these international supervisions with a Latin American country of cease-fire or of elections, etc., are something that has always raised enormous resistance, especially in Mexico, because it is an intervention, it is paternalistic.

Now, one would desire that the factions in El Salvador would agree amongst themselves and perhaps they will with

some kind of diplomatic mediations outside but not with international supervision; that would be treating it like an occupied country or some former colony of Africa or Asia. These things sometimes sound all right in international discussions but they do not sound right amongst ourselves.

The one final point is on the question of human rights. I think that human rights have been violated in Latin America since before our independence and all along, by one strong government after another, by the military. When you have a revolution, you have killings. One million people were supposed to have died during the Mexican Revolution, I am not sure of that figure, the demographers dispute it, but people were just summarily executed all around. This happens in all these conflicts; it is happening in Lebanon today, but, was Canada as excited about human rights with regard to Argentina, Uruguay, Chile and, at certain moments, Brazil? I am all for human rights and I would defend all the positions for human rights but you cannot be too sanctimonious about it if you, at the same time, forget what was happening in other places. It is not a very important issue in M. Dupras' statement, it does not affect the big political problem of the moment but one must be consistent on human rights and I do not believe that any country is really genuinely so.

Prof. Ma. del Rosario Green
(Instituto Matías Romero de Estudios Diplomáticos):

I just wanted to finish my intervention by taking advantage of a very important fact brought up by Prof. Urquidi. It is no secret that Mexico is now facing this pressure that Prof. Urquidi pointed out. Mexico is in the middle of a very difficult crisis. Even though we have established very good relations with the international banking system, we still have not solved all the problems we are facing: we have unemployment, recession and all of the things that you probably have read about in the Mexican newspapers. In the middle of this crisis it was expected by many sectors that our foreign policy would change in a direction that probably would align it more automatically with U.S. policy. We are under pressure from the U.S., and from Mexican sectors more willing to have foreign policy in Mexico which is closer in agreement with the interest and desires of the U.S. We are

making an enormous effort not to follow this path, not because we want to be enemies with the U.S. (we really want to keep on having harmonious relationships with this country because it is a very important country for us all, also for Canada), but we insist on following the principles of the traditional foreign policy of Mexico and especially on doing what we think is right and correct.

Prof. Urquidi was saying something that is also a very common criticism of Mexican foreign policy and I agree with his idea of Mexico not keeping strictly to the principle of non-intervention in the case of El Salvador. In the past what we did most, probably, was to end diplomatic relationships with the Franco government or with the Pinochet government, but we did not go beyond that. In the case of El Salvador this did not occur. The only thing I can say is that it may not be the official answer but an answer that really touches upon things that are important. The maintenance of the principle of non-intervention does not mean, or, at least should not mean, that Mexico or any country that is for that principle should adopt a very passive attitude vis-à-vis what is happening in Central America. I am all for a review of those principles, not in terms of discarding them, but of adjusting them to the times that we live in today.

Finally, I would also like to touch upon what Prof. Urquidi was saying about what Canada could do now without spending much money and that is probably in the UN's General Assembly taking place now. The Minister of Foreign Affairs is speaking on Friday and some of the things that he is going to say will probably touch upon that very practical issue and maybe without spending much money but supporting, now, the efforts of groups such as Contadora. In spite of all the things that have been said here (and I agree with the fact that everything would be futile unless the U.S. would really stop its aggression and hostility towards the area), probably the pressure of countries with great prestige, such as Canada, could be very positive, both in support of the Mexican position towards the Contadora group and also against any of this hostility or these attitudes which really make things even more difficult and make the possibilities of success of the Contadora group more distant. In spite of the fact that Contadora is only a group that really tries to help on a diplomatic basis, the achievements of the negotiations in the area and the pacifications of the area have been significant. The Contadora Group has served the very important purpose of be-

ing a containing wall in order to stop the conflict from spreading which would end up in a generalized war in the particular area.

Hon. Maurice Dupras
(Member of Parliament):

My remarks were written in Canada, in the Canadian political environment and I was influenced by the Canadian political reality, of course, and not by any other country.

In Prof. Urquidi's remarks I see that in Central America, like elsewhere in the world, we have succeeded in perpetuating the myth of the bad communist and the good capitalist (I come from a capitalist country and I am a capitalist). This did not start with the Sandinista Revolution in 1979; it started a long time ago, if you recall Coolidge, in the mid-twenties, saw Bolsheviks everywhere in Central America and he was in good company. Let me tell you a domestic story that my compatriot, M. Dufour, will certainly recall: During Duplessy's time there was a lot of graft and corruption in the government, everybody knew that. They built a lot of bridges and roads, but one of the bridges they built in Three Rivers collapsed into the river with the loss of a few lives. The next day Duplessy, who was the Premier of Quebec, said that it was an action of the communists. Therefore, neither Central America, nor Latin America, nor the Americans have invented anything new by saying that the communists are everywhere; we had that in the provinces of Quebec.

This myth has served many purposes but I find it more and more strange. It seems that Cuba is more communist than Russia is; the U.S.A. will not deal with Cuba; at least in the 1960s, soon after the Revolution, the U.S. exercised pressure on you, Mexicans, and in Canada, to cut off all relations with Cuba. Today you hear Reagan saying: "Do not mix politics with wheat, it is bad for the Russians to have shot down a Boeing 747 that was off course some miles, but it is good for the U.S. to sell wheat to Russia." What kind of standard is that? The Canadians are wondering whether he is speaking out of both sides of his mouth, saying that it is very bad to do business with Cuba and it is even worse to do it with Nicaragua. Unfortunately, Nicaragua does not have a choice and,

similarly to Cuba in 1960, if the U.S.A. and Canada and other neighbours were to turn their backs on Nicaragua, the only way Nicaragua could turn would be to the USSR; but we all know how far away the Soviets and the Latins are from one another. I can give an example of this: in my last visit to Cuba, my first after the Revolution, I tried to see the influence of the Soviets in Cuba and I could not find visible signs of it outside a few cars. I then thought that probably in the Tropicana I would be able to see the cultural influence of the Soviets over the Cubans. Well, I did not see any at all; I saw African and Latin America influence, some American influence but none of the Soviet influence I expected. That confirmed that the Cubans would do anything to normalize their relations with the U.S.A. and we all know that some day this will come about. The reason why we Canadians were in Cuba was that we were searching for the possibility of bringing this day closer than it is.

We spoke about human rights, the Zimbabwe elections that I recalled in my paper. When I speak about Zimbabwe I am talking about the electoral model that was used in Zimbabwe, I am not making a parallel between Zimbabwe and El Salvador but I am inviting observers to the Salvadorian elections, to spend two or three days there: one day before, the day of the election and the day after. Observing an election is watching the process over several months, perceiving the elections, the electoral process being implemented or the signs of all the parties putting up candidates.

Prof. John Holmes
(University of Toronto):

I do feel that we must follow up M. Dupras' suggestion that Canada should search for ways and means in which it can help; it cannot sit by and watch what is happening in Central America. It has to be a search without illusion, often by clumsy efforts one can discover what one is trying to do. As M. Dupras suggested, Canada could be helpful in the next stage. There would be a very good hope that we would be prepared to do that sort of thing, but I am also somewhat worried and hoping to get some light on what M. Dupras so eloquently referred to as "this little difficulty." Before we reach the stage of reconstruction,

what can be done about the present desperate situation (in El Salvador particularly)? Non-intervention and self-determination are very good principles, but are they enough? Can you, for instance, have self-determination in El Salvador without intervention? I do not quite know the answer to this question, but you could go back and blame people in the past for the mess. The analysis is pretty convincing, but we are faced with a situation where people are consumed with hate and killing each other; it is by no means only in Lebanon but also in Northern Ireland; how do you stop it? What, if anything, can we do? In the past, to some extent, Canada was a specialist in this sort of thing: we come in with the peace-keeping forces, the supervisory forces; we prefer to do it under the UN flag. That sort of thing can only be done after there is an agreement amongst the parties concerned.

I look back at one of the most difficult and bitter experiences in my life which has a certain parallel: when we were involved after the Geneva Agreements in 1954, in a tripartite commission which did, to some extent, successfully see to an armistice agreement in Vietnam. Then, after two years, it supervised free elections. I am not saying that Vietnam is an exact parallel by any means, but my feeling at the time, and particularly looking back afterwards (of course there has been much denunciation by those who did not have the free elections), my view was that the power at Geneva, who said that there must be free elections in Vietnam, had absolutely no right to prescribe such absolute nonsense. There was no possibility whatsoever of free elections in that situation.

How realistic is it to talk about free elections in El Salvador? I would like to think that it is, and if there is any possibility of holding them, and if there is anything anybody else can do, by all means do it. This is not a cynical question and it is not intended to be one, I would just like to see how one can get some kind of government in El Salvador. Nicaragua is a problem of the same kind but, at any rate, in Nicaragua there is an installed government which could be built upon, in a way; I doubt that the one in El Salvador could be built upon, but I am not a specialist in the area. What can one do? It is a little like the Zimbabwe situation and we were fortunate there that there was a compromise; but the compromise agreement had to come; it was not imposed by the people who moved in afterwards. If such a solution did exist and

if it was sanctioned by the UN General Assembly and if some sort of outside forces existed, so much the better. There is the point that Mr. Chavarría made that Canada has a certain advantage, since as it is not close up, it has no perceived interest. This was exactly the reason why we were always getting involved in peace-keeping operations elsewhere.

On the other hand, Prof. Urquidi has brought up a very good point about the sensitivity of Latin Americans regarding this sort of thing. It is not unlike the kind of sensitivity you have always had on the part of the Indians and various other people about UN forces. They recognize the principle as being a good thing but it is still very like old imperialistic interventions and it gets tied up in that. This is the sensitivity one has to recognize. I could see a group of Canadians with the skill and experience we have acquired in these things, operating in El Salvador in an election but not being able to speak to anybody around. One of the reasons we got involved in Vietnam, the Congo and elsewhere was that we could provide French-speaking people; we have great difficulty providing Spanish-speaking forces and I am a little inclined to think that if we came to that point it might be better to get a group from Latin America, through the Contadora group, if you already have this agreement.

Prof. Manuel A. Chavarría
(El Colegio de México):

If we have a military solution in Central America, then all the middle forces will be erased from the Central American political scene.

Secondly, if there is an intervention then we will have an occupation and we need not worry about economic aid. If there is a political solution to the Central American crisis, one cannot aid this region economically or financially without first implementing social and economic reforms. In the past we have seen that economic and financial aid has not trickled down to benefit the vast majorities who are the poor people in Central America.

Regarding the elections I do not have any inside information, but I can speculate in this sense: that if the FDR/FMLN coalition is anticipating holding talks

with the Salvadoran government, that means that they are confident that they will reach a certain agreement that will respect any election that is taking place in El Salvador. I do not think that any observers from abroad will be the remedy to the problem, although it will undoubtedly help.

A Canadian delegate:

M. Dupras, in your paper you mention that in your own view you feel that one of the important things would be for Canada to support more strongly the efforts of the Contadora group. That has come up several times this morning. I wonder, was this one of the recommendations of the subcommittee?

Hon. Maurice Dupras (Member of Parliament):

No, the Contadora group came into being after the report was confirmed.

The same Canadian delegate:

Do you think it would be a recommendation now?

Mr. Dupras:

I personally made the recommendation to Mr. MacEachan and I was delighted with his expressed support last May or April and I hope that this will be pursued vigorously.

The same Canadian delegate:

I just had one other short question, and that relates to Prof. Green who mentioned that there was a query about the response to the Contadora group, for example, Cuba has re-

sponded quite positively to it. Recognizing the fact that obviously the main problems in Central America are economic and social and not East-West problems, what is Mexico's attitude in this sense?

Prof. Víctor Urquidi
(El Colegio de México):

Relating to what was just said, I would like to make a couple of points. I do not think Mexico has much influence over Cuba. M. Dupras may have gone to the Tropicana and seen some Cuban dancers, but I went more recently and they had some Russian ones there. That is all very superficial, but really Cuba is totally aligned with the Soviet Union. Cuba is deeply involved in Nicaragua; every person you talk to there, in different professions, has been to Nicaragua and they are involved in education, security, economic planning, etc. So the Cubans are deeply involved. I do not think Mexico is going to dissuade the Cuban government from that because it is not only Cuban policy, it is Soviet policy.

Supposing that the Contadora group now has some success at the UN General Assembly and things do just calm down. This lull that "The Economist" speaks of, "Lull in Central America," do you think the U.S. is going to back out of Central America if Reagan gets reelected? If he does not get reelected there might be quite a change in policy; but if he thinks he is going to be reelected the U.S. is there to stay. That is the reality and that is very uncomfortable for Mexico, because the presence of troops, of U.S. forces in Honduras, is going to affect the whole scene. Look at what is going on in Guatemala with these succeeding generals taking power and maintaining the same policy; they also have U.S. backing and the U.S. is backing the military government of El Salvador, too. We have a very good close friend as president, Alvaro Magaña. He is a nice person, but the real ruler is the military.

The U.S. will not disengage from Central America. It will take years to bring about negotiations and diplomacy where the moderates, as Mr. Chavarría mentioned, may have some chance of convincing the extremists that they can really operate as a democratic government, rally support from all groups and carry out the social and economic re-

forms that are necessary; it is going to take years. I am frankly very realistic in this matter.

Prof. Jorge Alberto Lozoya
(El Colegio de México):

Taking my cue from the remarkable presentation by Prof. Urquidi and now his footnote to the benefit of our bilateral thinking here: even though we are nothing but academics, there is an unknown element in the Mexican position which has to do with the attitude or the thinking on this issue of the Mexican army. I am not sure that the Mexican Ministry of Foreign Affairs can think in strategic military terms. That is, I am not sure that we know if the Mexican army has a strategic outlook on localized warfare. How does the Mexican army see the Central American issue? As localized warfare within a global confrontation between East and West? All the Mexican positions here have referred to the special nature of the Central American conflict as it affects us as Latin Americans. However, in strategic and tactical thinking the Central American question also has to be considered within the framework of localized warfare anywhere, which is part of the military thinking such as: What do the Mexican army and people, responsible for that, think of the Lebanese question? What do they think of the Indochina, North Vietnam issue? I heard something very interesting from Mr. Holmes saying that the Canadians have a lot of experience in international conciliation and mediation in military terms and we do not. We are good diplomats. Prof. Urquidi made a funny remark on the good old times when the OAS could send a good Uruguayan ambassador around. Mexicans are diplomats who think that sending a good Mexican scholar to Central America to discuss things is going to solve the issues.

I am concerned about how the Mexican army sees the possibility of localized warfare in Central America in which the superpowers will be involved next door to us, as they are in Lebanon, as they may be in ETA and in Ireland. This is a completely new element in Mexican foreign policy that has little to do with Tlatelolco as such. Since there is no national debate on this matter, I have never heard this question raised. For instance, I have never heard the Mexican Minister of Defence come to Congress and ex-

plain what the armed forces have been thinking strategically about what would happen if the Americans came in. We are militarizing Chiapas and public opinion has not been made aware of that.

I do not agree with Prof. Green when she says we have no policy about refugee questions. A friend of ours from El Colegio was the head of the refugee programme at the Ministry of the Interior and he has just been fired. We have a military governor in Chiapas, a new military zone has been created for Chiapas. There must be strategic planning of the Mexican army with the Inter-American Defence System of which we are not aware.

It was very interesting to listen to Canadian and Mexican viewpoints: for instance, we Mexicans do not seem to be prepared to send troops anywhere, to send peace-keeping troops to Lebanon or, as the Canadians have done regularly in their history, to participate in war situations in which you become "the blue helmets." We get a little jumpy about it because that means involving the Mexican army which is supposed to be, as the Minister of Defence said three days ago, just used for parading on national holidays. I would like to see the Mexican military point introduced. I wish somebody very high in the government could be kept informed.

Mr. Gert Rosenthal
(ECLA):

It has been a very provocative debate this morning and I do not really want to pick up the many issues placed on the table. I would like to raise two points: one, that seen from the Central American viewpoint, the tragedy for Central America is to have the East-West confrontation, not only for the conventional reason but for two other reasons: in the first place, the injection of the East-West confrontation in the Central American context has very little to do with Central America; it is very understandable that in the chess game played on the world stage between the two superpowers it is very difficult for the U.S. to have the other superpower tweak its nose in its own back yard. The U.S. cannot tolerate that and it has nothing to do with Central America, it has to do with posturing between one superpower and the other. This

introduces an extraordinary lack of sensitivity towards what the Central Americans think, and the latter appear as some kind of pawns or passive onlookers to a conflict which really has very little to do with them. That is the first strategy.

The second strategy is even worse, because I feel that there is an inherent contradiction in the objective of containing communism and that of supporting change. These things are not done in the abstract and the U.S. has to seek domestic political actors to support. If the issue of containing communism becomes the overriding issue then the U.S. has to support the domestic actors and that will help the U.S. to contain communism. Unfortunately, they are the same domestic actors who are using the cliché: "the forces of the status quo." Therefore, a contradiction exists there which is insoluble as far as I can see. So the injection of the East-West conflict in Central America is a big strategy for the Central Americans who appear there as passive onlookers with very little to say.

My second comment has to do with something Prof. Green and Prof. Urquidi said: The idea that Canada should give moral support to the Contadora group. I am very much in favour. The initiative that was undertaken by the four countries of the so-called Contadora Group is worthy of the support of all reasonable nations of the world. What irritates me a little is the idea that moral support is enough; Canada and Mexico, to draw a caricature, are asking themselves what they can do to support Central America without it costing them very much. You cannot be an important actor in the international scene without committing resources; in other words, countries which want to be important actors in the international arena have to back up their participation with resources. Moral support for the Contadora Group is not enough; it is nice, it is noteworthy, so is love of motherhood, but if Canada wants to exert any influence on events in Central America, it will have to go further than giving moral support; I would say the same for Mexico. It has to be said, however, in Mexico's favour, that they have committed a considerable amount of financial resources through the Venezuelan-Mexican energy programme which gives them a newly acquired presence as an international actor in the Central American arena - a degree of legitimacy which other actors do not have.

What I am thinking about concretely is how Canada could be supportive of the Contadora initiative. I dis-

agree with Prof. Urquidi when he states that regional economic integration or regional economic cooperation has come apart; as a matter of fact, it has not and that is a remarkable fact. About 20% of the trade generated in the five countries is among themselves and this does not happen because of any Bolivarian or, in the case of Central America, Morazanic ideals. It is happening because of necessity and, since they say that necessity is the mother of invention, the Central Americans have been able, so far, to separate the area of political interaction from the area of economic interaction. There was an armed conflict in 1969 between two countries; it was unable to interrupt seriously the degree of economic interdependence. Over the last three years, we have seen countries coming to a virtual armed conflict, as in the case of Honduras and Nicaragua, but they have managed to continue cooperation. A lot of people who are not from Central America regard this with a great degree of skepticism, but it is a fact for all who want to see it: the level of interdependence through trade; the fact, for instance, that Nicaragua buys electric energy from Costa Rica and sells it to Honduras; the fact that the countries can meet in their multiple fora in the economic arena without any difficulty. This is something very much worth preserving, stopping political differences from spilling over into the economic arena. There the international community can make a very concrete and substantial contribution to maintaining economic interdependence, to give time for the political initiatives, launched by the Contadora Group, to take effect or to fail.

During this period all efforts should be made to allow the Central Americans to continue trading and cooperating amongst themselves. This requires money, not a lot of money, but if the international community or those countries that are paying lip service to support the Contadora Group would come up with a mass of resources in the order of 100 million dollars this would enable the Central Americans to continue trading for 1 1/2 to 2 years at more or less the level of 1980. This is a very respectable figure, it is approximately a billion dollars worth of trade amongst the Central American countries. The calculation there is that while the countries maintain this high level of economic interdependence, it is going to be that much harder for the political differences to spill over into the economic area.

Therefore, whenever I am asked what can reasonable reformist-minded countries of the world, like Canada, Spain,

France, or Sweden, do to support the Contadora initiative, my response is that they should give some support to the economic aspects of the Contadora initiative. The Contadora initiative was divided into four chapters, one of which was called something like: "Economic and Social Goals," but I think that the authors of that do not have any clear idea of what that means. We have been selling the idea that the only thing we should concentrate on right now, in the immediate future, is to get the international community to support economic interdependence in the region and that this be maintained both for economic and political reasons. For economic reasons because it is obvious that the utilization of installed industrial capacity is way down, and if there were a little liquidity for the countries to continue trading with each other that would make a contribution, at least to prevent dis-economies of scale in industry and further unemployment. Even more important, in my opinion, is the political fact which I cannot stress enough, very few people believe it: that the countries are indeed willing to continue to cooperate in the economic arena, and that is something remarkable, worthy of support, which could, at some point, contribute to political distension.

Therefore, my idea is that moral support is not enough. Something concrete can be done that involves some money and I wish that the Mexicans and the other three members of the Contadora Group would pursue this with more aggressiveness vis-à-vis the countries in the world who would be able to make financial contributions to an idea or inspiration behind the Contadora initiative.

Prof. John Holmes
(University of Toronto):

I found what has been said very persuasive and I entirely agree with Dr. Rosenthal that words and support are not enough, but then I say: Whom do you give it to? How do you do this? Let us say we raise the money, and the sum is not a great deal, presumably you have to work with the existing governments. I can think of the situation in Canada; for instance, if we provide money for the Nicaraguan government there would be protests in some directions; if we provide money for the Salvadorian government there would be strong protests in other directions. How can you have a

framework to work within the existing governments? This is not intended as a question to destroy your idea, it is just to explore it.

Dr. Gert Rosenthal
(ECLA):

Our idea is to multilateralize the international assistance through an existing institution which is the Central American Bank for Economic Integration. A special mechanism has been created within the bank. If I go back a little further, the Central Americans have a clearinghouse which clears trade balances normally on a quarterly basis, on a multilateral basis, and the clearings are done by the Central Banks in domestic currencies. They need foreign exchange only to pay the balances and those payments are done on a bilateral basis, between each Central Bank and other central banks.

Two things have happened in the last three years:

(1) Aggregate demand has fallen off because of the severe economic recession, and there is nothing to be done about that. So trade has fallen off more or less in proportion to the contraction of global or aggregate demand.

(2) What has happened is that most of the countries, and especially the deficit countries in regional trade, do not have foreign exchange; they are therefore trying to limit their imports from the rest of the region to a level approximately equal to what they are exporting. This brings the level of intraregional trade down to the lowest common denominator.

We have proposed the creation of a new mechanism tied to the Central American Clearinghouse which would permit the countries to extend medium-term loans on a multilateral basis. In other words, if Nicaragua has a deficit in its trade with Guatemala of 30 million dollars - what has been happening in the last two years is that the Central Bank of Guatemala extends bilateral credit to the Central Bank of Nicaragua. We are proposing the creation of a multilateral institution whereby Nicaragua would owe this new institution the 30 million dollars and this new institution would owe Guatemala 30 million dollars. The bilateral relationship disappears. The idea is for countries to extend medium-term credits for a certain percentage of

the deficit, say half; the other half has to be paid in cash. For this mechanism to work, it would need some "seed" money in foreign currency for two reasons:

a) To finance part of the deficit which would have to be paid in cash.

b) To give this new instrument a backing in international currencies in order to meet its commitments to the debtor banks even if the creditor banks should fail to meet their commitments on the exact date.

We figured out that about 100 million dollars are needed in order to maintain a level of intraregional trade of roughly one billion dollars.

My view is that the international community or Canada, as a member of the international community, would not be supporting Guatemala or Nicaragua or El Salvador; it would be supporting the region, "the good guys and the bad guys." It is fair enough because the region is requesting it. We encountered certain difficulties in Europe last week during the meeting of international donors and the Central Americans. The European members are very reluctant to support the "bad guys" in Central America. They are willing to support the "good guys," although every day there are fewer "good guys." We are trying to sell them the idea that they should not worry themselves too much about the identity of the "good guys" and the "bad guys" by introducing a multilateral approach to assistance in Central America. A concept of pluralism should be introduced into international assistance which would be very consistent with the goals of the Contadora initiative. Machinery does exist there to implement this.

My idea is that there should be a sort of International Pledging Conference organized by the four Contadora countries, in which certain members of the international community would commit financial resources in favour of this idea. I do not think one should go around asking for other things, one should concentrate everything around the main idea of allowing the Central Americans to continue trading with each other, in other words to maintain economic interdependence while the political initiative gets enough breathing space to see if it is going to work or not. I am quite sure that the prospects of the Contadora initiative are a function of what the Reagan administration intends to do and depend on what the domestic limitations in the U.S. are to the Reagan administration carrying out its intentions. In other words, if the Reagan ad-

ministration is able to persuade its public opinion that we have to get rid of these awful Sandinistas, well this initiative is not going to work. I do not think that it is too much to ask the international community to back up its lip service to the Contadora Group by contributing a relatively small amount of resources to give a little breathing space and time to work.

Prof. Víctor L. Urquidi
(El Colegio de México):

It is true that in the past, whenever there were political difficulties, the integration process continued. I lived through that: all these problems arising between Guatemala, El Salvador, Honduras and others, and everything carried on. I would be the last person to cast doubts on the value of the integration process and on the technocratic gimmicks that we all cooked up at various stages and some of which worked very well. But I think the situation is a little different now.

The "ifs" are so important: if the Contadora Group should succeed first of all in getting all this moral support we talk about and calming down the hawks in the Reagan administration; if that should happen, then what Dr. Rosenthal says would work immediately. Behind it are all the other factors: the medium/long-term plan that Dr. Pollock spoke about, etc. But one must be realistic in the face of what is going on, there is very little to indicate that there is any moderation on the side of the Reagan administration, and the Nicaraguans are getting into more and more of an extreme position. One has to be a little skeptical; I am not against it, I am all for it. These things could be very important right now; in other words, we have to get over the political problems so as to be able to set in motion all the different mechanisms, of which there are many, and to start revitalizing the Central American economy which is in a disastrous state now for purely outside reasons like the decline in coffee, etc. and because of the conflict within the region. We therefore have to view this situation with political realism and it is there.

A Canadian delegate:

This is less of a comment than just a preface to the very limited call by Ambassador Rosenzweig for more than lip service to the Contadora Group. Canada has already committed over 100 million dollars to Central America over a five year period and that is the way we worked it out in our budget-making process. What we have not done with the money is spend it because it is very difficult to programme projects in Central America, not because of any particular resistance from the U.S. or even the host governments, but it is just difficult to administer and follow up a technical assistance programme when people are killing and kidnapping each other. To give you some of the history which is probably well known to everybody: there was a donors meeting under the aegis of the Caribbean Basin Initiative. There was a donors meeting scheduled in Caracas, unfortunately that meeting ran into the political dynamics of what was then the Falkland/Malvinas crisis. That meeting did not take place. This cancellation eliminated those who were going to be again convened at another meeting in Geneva: the Japanese, French, Germans, Dutch... many countries who had already signalled that they would be willing to participate in a donors meeting of that sort. The result was that Canada ended up stating: "Our programmes will continue regardless of whether, for example, the U.S. Congress is still chipping away at the administration's original CBI proposal, our projects will continue to be funded and allocated to the extent that is possible."

A Canadian delegate:

With all due respect to Prof. Urquidi's comment that specific technocratic gimmicks would not work until the political and security framework is resolved, I must confess that as a new academic, who had been an old bureaucrat, I am very attracted by Mr. Rosenthal's idea of not solving anything. His idea was only, as I understood it, to provide some breathing space; in other words, to demonstrate that economic multilateralism might help a bit to promote subsequent political pluralism. It was not to solve anything but to ameliorate, or calm temporarily, a situation. The question that I direct to Dr. Rosenthal is: How could we learn more about this idea? Is it published?

Dr. Gert Rosenthal
(ECLA):

Yes, it is published in various documents. However, a difficulty arises: from the strictly economic viewpoint, the more orthodox actors on the international stage do not like the idea. For example, the IMF and even the World Bank dislike it because, as they view the position, the balance of payments deficit should be attacked at the global level and one should not respond to regional balance of payment problems since that is a barrel without a bottom: you put money in and the only way to redress it is to get a global balance of payments equilibrium. Even on economic grounds that is a debatable point because the level of economic interdependence between the Central Americans certainly gives a qualitative difference to each one's balance of payments deficit with the rest of the region vis-à-vis their balance of payments deficit with the rest of the world.

Basically, what I think is that this idea should be sold on a political level; in other words, whether it has economic merits or not. The people who would like to see the Contadora initiative prosper and political distension, through negotiation and consensus, reached, should back this initiative as a political decision and not base it on the possible analysis of costs and benefits. A document which gives it political justification has not been prepared. We have prepared documents on the economic justifications, but we have never taken that idea and tried to tie it to the Contadora initiative. It could be done very easily.

Hon. Maurice Dupras
(Member of Parliament):

I would like to begin by expressing my satisfaction that Mr. Chavarría agrees with me when he sees the advantages of Canada's position not being clouded by past involvement. It is important that a country such as Canada, in this hemisphere, that has no past in Central America, could make suggestions and promote solutions that are fresh and not coloured by any past experience.

I would like to respond to Prof. Rosario Green when she described the state of the political situation. She succeeded in convincing me anyway that it is very dynamic,

fluid and, at times, intriguing. Of course, a Canadian, looking at the situation from that distance, does not always perceive all the new answers to the political movements of Latin America. Nevertheless, Prof. Greèn has contributed to the sobering of some of my thoughts and, perhaps, to the cooling down of my enthusiasm to attempt to find solutions to the serious problems of Central America.

We are now engaged in discussing the possibility of perhaps having a plan. Dr. Rosenthal brought some information about some plans and Mrs. Moreno yesterday informed us that, at a conference in Brussels, CEILA produced a document that could be the basis for such a plan. Under these conditions, would CEILA, which is perhaps too closely knit with the G 77, not be suspected by the U.S. administration? We all know the allergy Mr. Reagan has for the G 77. Would this project ever have a chance of being taken seriously by the U.S. administration, if the association were made that CEILA and the G 77 were involved?

In response to Prof. Urquidi's expectation that maybe President Reagan would be reelected in 1984, I think that this is a strong possibility and I know what it would mean to Mexico if that came about. It would be an even worse scenario if he were reelected with the same Congress and Senate. I believe that if he were reelected he would have a different House and Senate and the situation would, in any case, be quite different. Realizing Mexico's fear of the fluid and dynamic situation in Central America, which is so close, and the possibility of having to cope with so many refugees, I can understand the reserve of Mexicans towards any intervention in Central America. This is why we, Canadians, have to tiptoe our way towards the manoeuvres that will take place in the near future.

Finally, I would like to express my appreciation to El Colegio de México and the Colloquium for having invited me, a parliamentarian, to participate in this exercise. I found it very enriching for me since, as you know, I have spent almost two years devoted to Latin American affairs and I intend to pursue this. I have learnt a lot in the last three days.

Prof. Manuel A. Chavarría
(El Colegio de México):

I just want to make some final observations. I believe that if the economies of the Central American countries are to prosper, it has to be done within an integration scheme, whether it be a negotiated settlement that favours the left or the right or the centre, in the first place. Insofar as that is true, then it is worthwhile to save the institutions and the legal framework of the present integration scheme. This is only a general observation.

Regarding the mechanism that Mr. Rosenthal was speaking about, I have the following thoughts: most of the foreign investment in Central America is the U.S.'s; if that is the case, most of the trade benefits American firms; how many resources has the U.S. government committed to this mechanism? Why is it asking for cooperation from other governments?

Chairman Prof. Edgar Dossman
(CERLAC):

It falls to me to bring this session on Central America to a close; in a sense, it began last night with Ambassador Rosenzweig and his important comments and it continued during a morning which has been a very exciting one, very provocative and, for all of us, a very significant one. I do not think that any Canadian participant here has failed to learn a great deal about the dynamic Central American situation. In particular, I would like to thank the three panelists: M. Dupras, Prof. Rosario Green and Prof. Chavarría.

The end of the final session also brings to a close the substantive session and the conference. The symposium will be turned over to Dr. Urquidi. I would, however, like to make a few comments about the hospitality and generosity of El Colegio; in this regard, Prof. MacDonald, our president, has asked me to state publicly his regret at not being here this morning. Right from the beginning of the organization and my very happy dealing with Prof. Omar Martínez and other officials of El Colegio, it has been a very happy experience and it does revive a link, a dialogue, between Canada and Mexico of a particularly im-

portant kind. I certainly hope that when we act as hosts, next time, for El Colegio's professors and their guests, we can provide the same kind of hospitality that we received here.

I would also like to mention that it has been a particularly happy experience that Ambassador McKinney and the officials of the Embassy have spent so much time with us. But, principally to Profs. Urquidi and Martínez Legorreta and to all the people who helped plan this Symposium and who did such a good job and who put us up so well and gave us every consideration and who have helped in reviving this initiative, I would very much like, on behalf of our delegation, to express our warmest thanks and regards.

Prof. Víctor L. Urquidi
(El Colegio de México):

Dr. Dossman, Mr. Ambassador, Canadian friends, on behalf of El Colegio and the participants on the Mexican side I wish to, first of all, express to you, what I am sure I am interpreting in their thinking, that we have found this a most rewarding meeting. One attends so many seminars and tends to classify them in just two categories: good ones and bad ones, and this is definitely in the first category; this has been a very good seminar. We have exchanged points of view; we have learnt more about your own view of Mexico and the surrounding area, Central America, which is of great interest; we have had a lot of new ideas injected into our knowledge of what has been going on between Mexico and Canada. It is essential that this sort of dialogue continue; I am shocked that we have spent so many years without one and we must remedy that.

I want to thank President MacDonald, through you, for the very important participation, indicating good will and cooperation that he put into the organization of this symposium and the various organizations that have helped it; and of course, the interest of Ambassador McKinney in having this meeting.

I trust that some ideas will become more concrete as to the content of a future meeting which will hopefully be in Canada. Yesterday I said that I thought that at every session we should have some kind of review of relations because so many things happen these days of which one is not fully aware. Then we might go on to discuss certain spe-

cific matters, issues, both parallel national problems and bilateral problems and international matters of interest to both countries and thus learn from each other.

I am glad we had this meeting, I am glad that you found the circumstances amenable for this kind of discussion. I do hope that in the future this will not be a purely Colegio-Foreign Ministry-Mexican representation. We should make an effort to bring in scholars from other organizations in Mexico, there are many that are also interested in these questions. I have a very strong feeling or attitude about the value of these academic discussions because they provide a lot of freedom to talk. It is said that very little comes out of them, sometimes a short report or a memo or a short booklet. Prof. Holmes must have a long experience in dealing with the follow-up of the innumerable meetings that he has attended. But even if not too many books, papers or documents are produced, I think what emerges essentially, is that those of us who are interested in things happening in the world will have better judgment, better data to talk to people who are close to policy and decision-making areas. In Mexico we do not always find that the policy-makers are interested in the views of academic people; that is changing, however, and, insofar as we can maintain this level of discussion we have had here, we are enriching our capacity to interact with people who are facing immediate problems of policy and politics, etc. This is the value I give to these meetings. They are not sterile at all; on the contrary, they have set much in motion.

I also value very much the presence at this sort of discussion of people with political experience, such as M. Dupras, who are closer to the grass roots, who have their ears to the ground and who view things in a completely different plane. I very much respect the life, the activity and the view of a politician because it is a world that we academics do not fully understand and we must hear more about it and be able to interact. I do not know if any others of you are active in politics, but M. Dupras obviously is and that is a very positive ingredient in our discussions. I think what we should do on the Mexican side, and we have done so in the past, is to have somebody present more directly linked to the political level of discussions in our country.

Thank you very much indeed for all your concentration in these three days. Thank you, Mr. Ambassador, again for all you have done. We can now declare the meeting, jointly, closed.

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El Colegio de México together with the Canadian Institute of International Relations undertook the organization of a forum to bring specialists together to analyse Mexico and Canada's situations as well as their foreseeable future. The first of the meetings called Mexico-Canada Colloquia was held in Oaxtepec, Mexico in 1967; the second in Toronto, Canada in 1969. Some years later, the University of York in Toronto through the Centre for Research on Latin America and the Caribbean (CERLAC) and El Colegio de México prepared the third meeting which was held at El Colegio de México's facilities in Mexico City.

The papers presented on the Third Mexico-Canada Colloquium published in this volume include the discussions that followed the papers' presentation. It is relevant to note that the relations with the United States served as an important reference point. Greater rapprochement between Mexico and Canada can only result, ultimately, in deeper understanding and in the enhancement of the relations among these three countries.

EL COLEGIO DE MÉXICO