

BUSINESS COUNCIL ON NATIONAL ISSUES

THE TORONTO 1988 ECONOMIC SUMMIT A CANADIAN PRIVATE SECTOR PERSPECTIVE

**A STATEMENT BY
THE DELEGATION OF THE
BUSINESS COUNCIL ON NATIONAL ISSUES**

**THE ROME ROUNDTABLE
AND INTERNATIONAL BUSINESS SUMMIT**

**ROME
MARCH 24 - 25, 1988**

This statement on international economic policy reflects the views of the Canadian delegation of the Business Council on National Issues attending the Rome Roundtable and International Business Summit, March 24-25, 1988.

The Roundtable meetings initiated in Tokyo in 1986 and hosted in Montreal* in 1987, bring together senior business leaders and heads of major employer organizations from the seven leading industrial powers and the European Community.

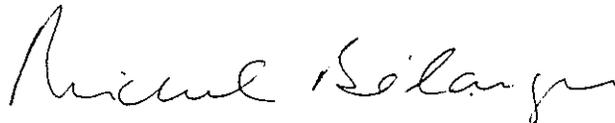
The goal of the Roundtable meetings is to encourage dialogue and consensus among the participants on global economic issues, and to communicate these perspectives to the political leaders of the industrial powers prior to the Economic Summit. In June 1988, the Economic Summit will take place in Toronto.

The Business Council on National Issues is composed of the chief executive officers of 150 leading Canadian corporations. With some 1.5 million employees, these companies administer over \$750 billion in assets and generate over \$275 billion in revenues.

A non partisan organization dedicated to the development of public policies in the national interest, the Council's purpose is fourfold: to help build a strong national and international economy, progressive social policies, healthy political institutions, and a more secure Canada.

*The Business Council Delegation to the Montreal Roundtable and International Business Summit was composed of David Culver, Chairman and Chief Executive Officer of Alcan Aluminium Limited and Chairman of the Business Council; Thomas d'Aquino, President and Chief Executive Officer of the Business Council on National Issues; A. Jean de Grandpré, Chairman and Chief Executive Officer of BCE Inc.; and Allan R. Taylor, Chairman and Chief Executive Officer of The Royal Bank of Canada.

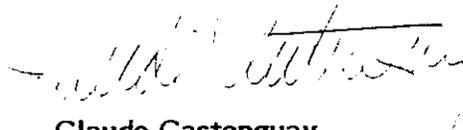
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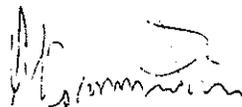
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When our Japanese colleagues convened the Tokyo Roundtable in 1986 and initiated the first of these International Business Summits, the hope was that dialogue and consensus among senior business leaders on major global economic issues would contribute to a better understanding of private sector perspectives among our government leaders participating in the annual Economic Summit.

At the Montreal Roundtable last year this process continued, and the participants -- many of you among them -- arrived at some conclusions that in retrospect could hardly have been more insightful. We expressed serious concern about the global economic situation: specifically, we were then preoccupied by slow overall growth, large and growing current account imbalances among the leading economic powers, increasing protectionism, and the unresolved problem of debt in developing countries. To do little or nothing about them, we said, would lead inevitably to an international economic crisis. Accordingly, we agreed to recommend to our respective national leaders preparing for the Venice Economic Summit a six point agenda for collective action:

1. immediate steps by the Summit countries to reduce the large current account imbalances destabilizing the global economy;
2. immediate policy actions by the governments of major account surplus countries to substantially increase growth in their economies;
3. more vigorous effort -- led by countries with major account surpluses -- to boost the trading prospects of major debtor countries in the developing world;

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4. steps by the United States to achieve substantial reductions in the size of its structural budget deficits;
5. encouragement of newly industrialized countries to allow their currencies to better reflect their growing role in the global economy; and
6. intensified efforts among the Summit countries -- with the support of their respective business leaderships -- to renounce protectionism and renew their commitments to solving trade problems cooperatively.

Since we last met, the global economy has been confronted with continuing volatility and uncertainty. The huge imbalances in national current account positions worsened, we experienced intensified exchange rate instability, and the forces of protectionism in Europe, Asia and North America remained strong. The dramatic fall in stock markets last October signalled a high degree of skepticism in many parts of the world about the prospects for resolving these problems.

In Canada, to some extent we have been insulated from the full impact of the shocks to the global economic system during the past year. In large part this is due to the strong economic performance we are experiencing. In 1987, overall economic growth in our country was among the highest of the nations represented here today.* Unemployment continued to fall -- it now

*Over the 1984 to 1987 period, Canada's cumulative output and employment growth were the strongest among the major OECD countries. Source: The Department of Finance, Canada.

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stands at 7.8 percent -- the lowest since August 1981. Inflationary pressures remain moderate. In the business sector, activity continues to be vigorous. Investment has jumped upwards very significantly and corporate profits before taxes have improved sharply. With stronger cash flow positions, many of Canada's industrial corporations have been able to improve on their liquidity positions. Consumers too continue to demonstrate confidence in the economy. Spending is robust -- so much so that the overall savings rate has fallen to around eight percent -- the lowest since the early seventies.

But Canada's high degree of dependence on the health of the global economy is well known and is an ever present reminder to our country's business leaders of the need to play a vigorous role in helping to bring about the national and international economic reforms that all of us at this Roundtable know are so direly needed.

The recommendations of the Montreal Roundtable remain as relevant today as ever -- and the commitment of the Canadian delegation to these views has not changed. But given the events of the past year and the growing urgency for the Summit leaders to move collectively and credibly towards reform, we suggest that these issues be revisited in our discussions today.

At the national economic level, the United States has taken some steps to reduce its budgetary deficit, but I suspect that our American colleagues agree that more must be done. Such a step would help restore confidence to financial markets, stabilize the dollar, and result in somewhat lower levels of interest rates in the United States.

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In the same vein, although of less significance to the international economy, Canada too must act more vigorously to reduce its continuing high deficit levels.

Since we last met, our Japanese colleagues will acknowledge that there has been a significant boost in domestic demand in Japan. But momentum should continue, and a number of areas offer the potential to do so -- for example, the further modernization of housing, enhanced infrastructure investment, and deregulation in sectors such as trade, agriculture and urban land use. The two Maekawa reports have suggested sensible ways in which Japan can move further in this direction.

The situation among the European countries represented here presents a different set of challenges. High levels of unemployment and slow and uneven growth are obstacles. However, expansionary policies among those countries that have scope for faster growth -- the Federal Republic of Germany in particular -- should be encouraged.

On the exchange rate front, there have been strong fluctuations since we last met. Most notable has been the decline of the dollar. Without wishing to suggest what is the appropriate exchange rate level, we believe the dollar now is at a more realistic level and that a further depreciation would not contribute constructively to the adjustment process. Our concerns, as private sector leaders, surely must be to achieve exchange rate stability. The sharp currency swings of the 1980s have had serious consequences on enterprises and employment in our respective countries and point to an urgent need to improve the international monetary system. We agree with the widely held view that

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improvements to the international monetary system should result in more effective coordination and even the acceptance of some form of limits so as to reduce the likelihood of major currency misalignments and excessive volatility.

Improved cooperation on trade remains a top priority. Beating back protectionism is not easy, we know, but so important at this time when our countries are facing major adjustment. We should bolster the efforts of our respective governments to respect scrupulously the Standstill Agreement against new trade barriers reached at Punta del Este in September 1986. The United States should avoid the passage of new protectionist legislation as exemplified in some elements of the proposed omnibus trade bill. Japan should redouble its efforts to remove unacceptable impediments to imports. And the European Community should pursue the reform of the common market agricultural policy even more vigorously than was agreed to at the recent Community Summit.

The current Uruguay Round of trade negotiations offers very real potential for significant progress in trade liberalization and in particular for stemming the growth of non-tariff barriers; improving the dispute settlement provisions of the General Agreement on Tariffs and Trade (GATT); limiting recourse to the GATT Article XIX safeguard provisions; and expanding the GATT to cover areas such as agriculture, services, investment, and intellectual property. The greatest danger facing the Uruguay Round is the temptation on the part of politicians and officials alike to drag their feet. The constituencies represented at this Roundtable can make a difference. We must press our respective governments to pursue vigorously the agenda outlined in the GATT Ministerial Declaration outlined at Punta del Este. In December of this year, Canada will host the Uruguay Round mid-term

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ministerial review. The announcement of important breakthroughs at that time will provide the Round with needed momentum.

The Canadian business community remains strongly committed to further liberalization and to the expansion of the rule of law in multilateral trade. But we have also strongly endorsed our federal government's recent trade initiatives with the United States. As you are aware, Canada and the United States have recently concluded a comprehensive free trade agreement which encompasses the world's largest two-way trading relationship. Legislation to implement the Agreement is currently being prepared in both countries. Significantly, the Agreement includes services and investment, and establishes dispute settlement mechanisms that go further than those in the GATT or any free trade agreement. The Agreement signals the willingness of both countries to move decisively towards trade liberalization and provides in some respects a model for global initiatives.

As our national political leaders prepare to meet at the Toronto Summit, one subject deserves special attention -- the ongoing and destructive agricultural "subsidy war". Agricultural subsidies, which now exceed U.S. \$100 billion annually, are a major contributing factor to national budget and global trade imbalances. Policy reforms are needed urgently and should include: the establishment of a common basis for measuring trade-distorting agricultural subsidies; a freeze on agricultural production and export subsidy levels followed by real reductions in 1989-1990; reductions in barriers to market access; the harmonization of product standards; and agreement on the management of agricultural surpluses to avoid the disruption of world markets.

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Business leaders in the countries represented at this Roundtable have an important stake in seeing real progress achieved on the agricultural front. These are not issues germane only to our respective farming communities. They are central to the health of respective economies and to improved harmony in our international trade.

Finally, we recognize that developing countries continue to face staggering debt loads and uncertain prospects for growth. Ideas and strategies for dealing with this serious problem are plentiful. What is lacking is political will and a private sector consensus. The industrial powers must find ways to channel significantly higher flows of capital to those debtor countries capable of putting them to productive use. We have suggested in the past that countries with major surpluses should assume a larger and more proactive role by substantially increasing the level and the concessionality of their transfers to developing countries. We continue to support this view. But we should also keep in mind that the greatest single contribution to the plight of the less fortunate members of the world community will be to sustain strong and steady growth in our own economies -- growth that will lead to lower real rates of interest and to improved import access.

To sum up then, the Canadian delegation believes that simultaneous actions in the area of national economic policy, exchange rate relationships, international trade, and policies affecting the developing countries are needed to deal with today's challenges to the international economic order. Private sector coordination among us and responsible leadership in our respective countries can make a difference to this agenda. It is worthwhile reminding ourselves that while Economic Summits are the preserve of Presidents, Prime

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Ministers and Chancellors, the subject matter largely is about economic growth and employment; it is about the real economy in which the representatives at this meeting today have a huge stake and over which we have a great deal of influence. So let us work hard to achieve a consensus and then let us not hesitate to carry our views to our respective governments with vigour and conviction.