

CHECK AGAINST DELIVERY

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ECONOMIC CHALLENGES OF THE 1990'S:

EUROPEAN ECONOMIC INTEGRATION AND ITS IMPACT ON ATLANTIC RELATIONS

The decade of the 1980's has been marked by two different and sometimes contrasting trends in the world economy.

On the one hand, the process of internationalization has picked up pace to the extent that we are now more and more talking about globalization. Rapid advances in information technology, formation of new materials, development of new industrial processes and new sciences such as biotechnology are transforming the structure of the world economy. Financial markets, manufacturing processes and marketing strategies are increasingly:

global. Threats to our global environment caused by mismanagement and over-exploitation of natural resources are emerging as an increasingly serious problem for all countries.

At the same time, we are seeing a strengthening of regional economic integration. In Western Europe, the 12 member countries of the European Community are driving to reach their target of establishing a single market by 1993. The EC and the EFTA countries are presently exploring the possibility of creating a European Economic space, including 18 West European countries. - In North America, the US-Canadian Trade Agreement safeguards free trade on the Northern part of the Western Hemisphere. In other regions, we see similar attempts to establish closer economic cooperation.

The co-existence of the processes of globalization and regionalization is a major challenge to the management of the world economy. The emergence of a global market is a tremendous stimulus to growth. The political implications and the peace-making potential of increasing global interdependence could be historic. But at the same time, we face the possibility that the world may be divided in economic blocs. We risk that the potential for development is obstructed by emerging protectionism between the different economic groups. And we risk that entire regions, particularly in the third world, become further decoupled from the

rest of the world economy through a process which is presently widening the gulf between rich and poor nations.

So far, we have largely managed to avoid that the recurring skirmishes between the main economic powers - the United States, Japan and the European Community - have developed into open trade wars. If we look back on the 1980's, the performance of the world economy during the second half of the 1980's compare favourably with the first half. Growth of production and trade has picked up. Inflation, which was regarded as the main problem at the beginning of the decade, has remained at relatively low levels.

A main reason is that international economic cooperation between industrialized countries improved midway through the 1980's. The Plaza and Louvre meetings of the major economic powers were important to coordinate exchange rates and monetary policies in the industrialized world. An important lesson from the stock market crash in October 1987 is that a coordinated international effort can be very effective in countering economic shock-waves which could have had very negative effects worldwide. The initiation in 1986 of the new Uruguay-round of multilateral trade negotiations within GATT has been an important framework for talks to strengthen free trade, and to establish multilateral economic regimes in other important areas of the world economy.

But we have also had the reverse lesson, that the near collapse of the North/South-dialogue has left a large part of the third world with a stagnating economy or even negative growth. Unsustainable, crushing burdens of debt and reverse financial flows, depressed commodity prices, protectionism and abnormally high interest rates have created an extremely unfavourable climate for development in the Third World. The developing world needs growth to eliminate poverty. Only growth can also create the capacity to solve environmental problems. A major challenge of the 1990's will be to create external conditions that will help, rather than hinder developing countries in realizing their full potential. In this context, Norway welcomes and supports the debt strategy of the recent Brady plan, in which debt reduction is a central component.

I. ECONOMIC CHALLENGES OF THE 1990'S

In the 1990's, both the process of globalization and the process of regional integration are likely to continue. Economic interdependence will continue to grow, and the challenges to the management of the world economy will become even greater.

Before turning to the subject of European economic integration, let me briefly dwell on some of the most important problems facing us, as we enter the 1990's:

- Firstly, the integration of environmental concerns into a global program for sustainable development.
- Secondly, the continued levels of high unemployment in the OECD-area.
- Thirdly, the balance of payment problems, both in the industrialized and developing world.
- Fourthly, the question of energy, which is important both at the global, Atlantic, European and national levels.
- Fifthly, the integration of the Eastern European economies into the global economy.

A PROGRAM FOR SUSTAINABLE DEVELOPMENT

The World Commission of Environment and Development, which I had the honor to chair, pointed to the fact that major unintended changes are now taking place in the atmosphere, the biosphere and the hydrosphere. The changes now taking place outstrip our present ability to cope. The world's financial and political institutions are simply out of step with nature.

Since the publication of the report in 1987, the threats to the world climate have become even more ominous. A major international effort is now underway to establish the extent of global warming, and its possible effects on sea-water levels and climate. The stratospheric ozone layer may be in danger. Alarming messages are still coming in from many countries of the destructive effects of atmospheric and water pollution.

On the positive side, we have seen a tremendous increase of awareness for the need for urgent action. An intensive follow-up program of the recommendations of our report on "Our Common Future" is now in progress in international organizations, in many countries, and in non-governmental organizations. I have noted with great interest the increasing involvement of the Bush Administration also in international environmental matters, and I am very happy to see the leadership provided by my friend Bill Reidy, an environmentalist by profession, as head of the Environmental Protection Agency.

The Commission pointed to poverty as a major cause and effect of global environmental problems. There is no way we can deal with global environmental problems without including the factors underlying world poverty and international inequality. It is quite clear that the developing countries will need assistance to avoid making the same mistakes as we have done towards our

environment. And as far as development is concerned, the 1980's have been a lost decade.

The report on "Our Common Future" offered the concept of sustainable development as a program of action to save our common future. We defined sustainable development as meeting the needs and aspirations of the present generation without compromising the ability of future generations to meet their needs.

What we now need is a global consensus for economic growth in the 1990's. Norway has supported proposals for a global economic summit to launch a new era of economic cooperation. Interrelated issues such as the debt crisis, trade matters, resources for the international financial institutions, better use of science and technology for global benefits, strengthening the United Nations system and specific threats to the environment such as global warming could be treated at such a summit. We still believe this would be a good idea to signal that world leaders are prepared to meet the challenges of the next decade.

UNEMPLOYMENT

Let me turn to the issue of unemployment.

In OECD/Europe, the number of unemployed persons increased from 5.6 million in 1973 to 17.5 million in 1983. In

spite of the economic upturn in the last few years, unemployment in Europe rose to over 18 million persons in 1988. A large number of those are now long-term unemployed or young people who have never had a stable job. In many European countries, a whole generation is in the process of being lost for the labour force. We all know the human and social problems which follow high unemployment. It is a tremendous waste of human resources. A committed effort to tackle the problems which cause the persistence of high unemployment rates, must be high on the international economic agenda of the 1990's. The present momentum of economic growth should be used not only to increase profits, but to implement concerted macroeconomic, structural and labour market policies to substantially reduce unemployment in the 1990's.

BALANCE OF PAYMENT IMBALANCES

The stubbornly high balance of payment imbalances in the world economy represent an unsolved and potentially dangerous problem. Within the industrialized world, the continued imbalances between the United States on the one hand and Japan and the Federal Republic of Germany on the other have been a permanent issue on the agenda for the economic summits, in international organizations and in bilateral talks. The reduction of the "twin deficits" of the United States economy has been recognized as a

key requirement for a better management of the world economy. This requires other major countries to sustain the growth in the world economy. A reduction of the US budget deficit will also be important to safeguard political leadership in world affairs. In addition to the task of supporting sustainable development in the developing world through additional resources, it is today also desirable to increase concrete support to countries which are struggling to establish democratic regimes, both in Latin-America, in Eastern Europe and in other regions.

Even within Europe, payment imbalances between individual countries are large. Many European countries are experiencing increasing constraints on the economic policies by large balance of payment deficits. My own country was on the verge of falling in the same trap three years ago when the dramatic fall in oil prices reduced our export revenues from oil and natural gas by a figure equivalent to roughly 6.5% of our gross domestic product. The turnaround from a deficit in our balance of payments of 42 billion Norwegian crowns (excluding ships) in 1986 to an expected surplus of more than 20 billions in 1989 has been one of the most hard-won, but also most satisfying results of the economic reform program my government had to initiate when it took over in 1986.

ENERGY

In addressing global challenges of today and tomorrow, the World Commission on Environment and Development underlined how strongly energy, environment and economic development are linked together. As a petroleum exporting industrialized country, Norway has a special responsibility to work for greater contacts and better understanding between oil importing and oil exporting countries.

Norway also has the resources and political desire to continue to make a substantial contribution to the security of energy supply of our allies and trading partners on a stable and long-term basis. Our present oil exports exceed the production quota given to Kuwait by OPEC. We satisfy 12% of Western Europe's gas demand and a third of its imports.

American oil companies have played a pioneering role in the development of our offshore resources of oil and natural gas. American and other foreign companies can expect to be awarded interesting tasks in Norwegian petroleum activity also in the future. It is our policy to pursue an earnest dialogue not only with foreign oil companies, but also with the governments of countries affected by our petroleum policy decisions.

I underline these perspectives, also having in mind the concern in the United States about future security of energy supply caused by decreasing domestic production and increasing oil imports.

Stable oil prices at a reasonable high level will encourage continued development of petroleum resources in Norway and in other OECD-countries. This is important if we are to avoid political and economic uncertainties that follow from undue energy dependence on outside sources. Stable prices at a higher level will also encourage energy saving and the development of alternative, environmentally better energy sources.

INTEGRATION OF THE EASTERN EUROPEAN ECONOMIES INTO THE WORLD ECONOMY

The most dramatic political and economic reversal of the 1980's has come in Eastern Europe. By the middle of the decade, it had become obvious that the Soviet Union and Eastern Europe were rapidly losing ground on the global markets. This situation has gone from bad to worse during the latter half of the decade. Elementary consumer needs are not being met, and the general population has grown increasingly disenchanted and dissatisfied. President Gorbachov's launching of the policies of "glasnost" and "perestroika" represents a dramatic attempt to break with the

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inertia of the past and to revitalize the Soviet economy by bringing it more in tune with the rest of the world economy.

As we enter the 1990's, the reform program in the Soviet Union has probably become irreversible. Much has been achieved, especially in the political field. We are seeing more freedom of expression, better human rights, a more democratic political system, and more regional autonomy. The economic reform program is still in its infancy, however, and internal impatience is spreading, both in the different republics within the Union, and in the general population.

I believe it is very important for the future political order in Europe that president Gorbachov succeeds in his efforts, and that the transition to a more open, less centralized economic system in Eastern Europe, is achieved without new dramatic setbacks. To achieve this, we need to strengthen economic cooperation between East and West in Europe. It would be tragic also for the West if the sheer weight of privation and misery destroys present efforts to establish more democracy in Eastern Europe.

A coordinated Western effort is now underway to help Poland and Hungary, who have come furthest in their efforts to establish a new beginning. But as the Soviet Union opens itself to

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the outside world, the need for assistance and inventiveness is going to increase in almost every field. The Nordic countries are, for example, facing a great surge of interest within the Baltic states for increased contacts.

We are now seeing that Yugoslavia and the countries of Eastern Europe are reaching out to establish cooperative agreements both with the EC and the EFTA. Similar ties are being sought with the OECD and the Council of Europe, and within the CSCE process. It is my firm opinion that the Western countries should be as receptive as possible to such requests. A special effort is needed to make modern environment technology more available to the Eastern European countries. This is not only necessary to reverse serious ecological degradation in many areas of Eastern Europe. It is also in our own national interest, because a significant part of atmospheric pollution now reaching the Nordic countries, originates in Eastern Europe.

THE NEED FOR STRONGER MULTILATERAL COOPERATION

The challenges of the 1990's clearly point to the need for better worldwide economic cooperation. As a small country, Norway has a national interest in strong multilateral institutions. We are now seeing that even the superpowers have reached the limits of what they can do alone.

In the 1990's we need much more effective international cooperation. We need economic policy coordination that will promote vigorous non-inflationary and sustainable economic growth in harmony with the environment. We need policies that will secure more stable exchange rates and increased access to markets on a global basis. We need policies that will sustain and improve commodity prices. We need major new efforts to reduce the debt problem. We need a sustained effort to lower the levels of unemployment.

We therefore need not only a revival of multilateralism but a new dimension of multilateralism. We must build on the United Nations, the specialized agencies, the Bretton Woods institutions, the GATT, the OECD and others. But we need to make these institutions more able to meet the challenges of the 1990's. We need stronger links and better coordination between the individual organizations than we have today. Here again, the environmental field may provide the best test case for our ability to meet the challenges of the 1990's.

In a meeting of 24 Heads of State or Government in The Hague in March this year, Norway joined a call for a new approach to confront the global problems facing us, through the development of new principles of international law, including new and more effective decision-making and enforcement mechanisms. Together

with other like-minded countries, Norway will continue to work to follow up these objectives, in this year's General Assembly, in other UN fora and in other foreign policy contexts.

II. EUROPEAN INTEGRATION

Globalization of markets and regional integration of national economies are key notions for understanding developments in Western Europe in the 1980's.

In the late 1960's, there was almost an obsession in Europe about what Europeans perceived as "The American Challenge". When the economic crises hit most of the Western European countries in the mid 1970's, mainly national remedies were chosen to adjust the growing financial and trade imbalances, however.

The need for a new strategy became increasingly clear from many European setbacks in the global competition in the early 1980's. Europe was losing ground not only in indicators measuring growth, employment and investment. It was also lagging behind in the all-important technological field, where achievements can only be measured on a global level.

The growing awareness of this global challenge led the members of the European Community to a new effort to take better

advantage of the Community's system of institutionalized cooperation. Today, many signs suggest that they are succeeding in their efforts. Through the adoption of the Single European Act and the ongoing implementation of the internal market, the European Community has turned the image of "Euro-sclerosis" into "Euro-optimism".

Joint efforts in research and development, improved conditions for industrial cooperation and abolition of existing trade barriers now take place inside a distinct and dynamic legal and institutional system. The European Community is in the process of forging an identity of its own, institutionally, economically and politically. Today, this new integration already goes much beyond traditional regional cooperation.

This process directly affects even European countries outside the European Community. The national economies of the six EFTA countries (Norway, Sweden, Finland, Iceland, Austria and Switzerland) are as integrated in EC trade as the EC member countries between themselves. Norway for its part sends about 70 per cent of its export to the European Community, and receives 50 per cent of its imports from the twelve EC countries. As a group, the EFTA countries constitute the EC's largest trading partner, bypassing the United States and Japan combined.

The European integration process is thus of utmost importance for Norway. Domestically we have adopted a strategy of adaption to the internal market. In line with a long tradition of free trade, we support the process towards the abolition of trade barriers and a further harmonization of national rules and regulations. We have a national responsibility to secure that our trade and industry can compete on an equal footing with their European and global competitors.

An important task at present is to devise new cooperative mechanisms that can secure broader regional cooperation between the 18 EC and EFTA countries. The efforts by the EC since 1985 has resulted in a new dynamism in the European integration process. This means that even the EFTA countries have had to focus on stronger political ambitions and new goals to fulfill their search for real partnership.

This does not only include the different areas of trade and economic cooperation. European integration is now broadening into fields such as the environment, education, research and development and social policy matters.

The year 1989 may prove to be decisive for Western European cooperation. In March, at a summit meeting in Oslo, the Heads of Government of the EFTA-countries declared their readiness

to explore together with the EC ways and means to achieve a more structured partnership inside a dynamic European Economic Space.

The Oslo Declaration states our ambition to achieve the fullest possible realization of free movement of goods, services, capital and persons, and to extend our cooperation into fields going beyond the internal market.

Since May, joint working groups have worked to explore the possibility of a broad cooperation agreement between EFTA and the EC. Next month the working groups will conclude their study. It is my belief that EFTA and the EC together will lay the foundation for broader, deeper and more institutionalized cooperation in Western Europe.

Closer regional integration will allow us to take better advantage of our joint potential. It will also encourage much closer cooperation in areas such as environment, education, technology and social questions.

We are now taking advantage of an international climate that favours closer cooperation. It is our hope that a dynamic European Economic Space in a longer term can include East-European countries as the liberalization of their national economies continues. The ongoing integration may thus play an important role in further reducing old dividing lines on the European continent.

What will be the effects of European economic integration on relations with other countries or regions? Are the fears of a "Fortress Europe", evoked by some observers on this side of the Atlantic, founded?

I believe that the risks for increased European protectionism are exaggerated. From a European point of view such an option simply does not make sense. The President of the European Commission, Mr. Jaques Delors made this quite clear in January this year when he stated: "economically speaking, it would be absurd for the largest exporter in the world to close its frontiers to foreign products". He quoted the figures that Community Trade represents 20 % of world trade, whereas the United States accounts for 15 % and Japan for 9 %, and continued: "Europe would be the first victim of mounting protectionism, particularly since the Community is more dependent than its partners on international trade for disposing of its output".

Speaking on behalf of an EFTA country highly dependent on foreign trade, I very much concur with this view. I also believe that the present efforts to create a large European Economic Space will help diminish the prospects of a more protectionist Europe. Indeed, all evidence shows that the combined effects of regional liberalization in Europe within the wider framework of a global, multilateral trading system through GATT, have created not only

more trade within Europe itself. It has been beneficial to world trade as a whole.

The average EFTA country is relatively small. We all have an open economy, which make us strong supporters of free trade. There is widespread awareness in our countries that a tariff on imports is equivalent to tax on export. The fact that we are small, explains why we support a strong multilateral trading system - one that is transparent, liberal, non-discriminatory and that possesses an effective dispute settlement system. We favour a trading system that allows trade to be determined by competitive power in the market place rather than by political power around the negotiating table. In the game of power politics, small countries stand to lose. We prefer the same rules of the game to big players as to the small.

EFFECTS ON ATLANTIC RELATIONS.

What is the probable effects of this new process of European integration on Atlantic relations?

If we look back on the postwar era, the relationship between Western Europe and the United States has created a period of peace and prosperity which is unique. Shaped by the unquestionable leadership of the United States, we have witnessed

a development of trade and investment which is unprecedented, and a growth in production and welfare which is truly remarkable. In fact, the United States has played a leadership role at the center of the global economy throughout the postwar period.

Technological and economic developments during this period have produced not only growth, however. They have also produced important structural changes and a redistribution of economic power between nations and groups of nations. Within the Atlantic framework, the gross output of the United States and Western Europe was about equal as early as 1960. Subsequently, the relative position of Western Europe has been further strengthened.

These shifting balances have not happened without accompanying frictions and controversy. The breakdown of the Bretton Woods exchange rate system in 1971 marked the end of the supreme role of the United States economy in international relations. In the last three decades, Japan has emerged as an economic giant. During the 1980's, we have repeatedly seen trade tensions and monetary problems between the different economic groups. With the pace of international change speeding up rather than slowing down, there is no reason to believe that such problems will evaporate in the 1990's.

For the time being, the tensions in the US-EC relationship seem relatively restrained. In the same way as European integration has created anxiety in the United States about a protectionist Europe, the US Trade Act of 1988 has made a large number of US trading partners, including us in Europe, concerned about the direction of US trade policy. In a world of increasingly fierce competition in trade it is unavoidable that producers and exporters seek to defend their interests by calling for more protection. But in this context, the increasing tendency of the United States to resort to bilateral or unilateral measures is a source of grave concern. Even though the aim is claimed to be to contribute to the opening of markets rather than closing them, the inherent danger of bilateralism or unilateralism is the rapid threat of spiralling retaliations. To avoid such a development, it is vitally important that we adhere to the international rules which have been carefully established, primarily through GATT.

A multilateral regime which is adhered to by all, serves the interests of small trading countries like Norway. Our trade policy therefore remains unaltered. It is a policy of liberal trade in accordance with our multilateral obligations.

NORWEGIAN-AMERICAN TRADE RELATIONS.

Norway has lately had her share of bilateral trade problems with the United States. To me, this is a source of great concern, particularly since it stands in such a contrast to the very close and harmonious relations we now have in the security and political fields. In my lifetime, I cannot remember that we have ever had fewer concrete problems on our political agenda with the United States, or that anti-American sentiments have been more absent from Norwegian public opinion. I hardly need to repeat for this forum the importance that we attach to our relationship with the United States, in NATO and in many other areas.

I do not want to go into detail about the various issues presently confronting us in the bilateral arena. Suffice it to say that we have seen problems in export controls, in agricultural imports, in public procurement, on alleged subsidies, on fish products and regarding our well-justified scientific whaling program.

There are, I believe, a number of reasons why this accumulation of cases has occurred. Some of them might be termed "ordinary" trade disputes frequently handled by the GATT system. What bothers us more, however, is that evidently the Trade Act of 1988 has served to lower the threshold for companies and

industries to voice complaints against foreign competitors. Therefore - and since the US Trade Representative is obliged to deal extensively with the cases raised - we have had to spend political energy and see the bilateral relationship burdened with a new and surprising number of cases.

Throughout the postwar era, we have worked consistently and closely with the United States towards the common goal of a multilateral trade regime based on free trade. We for our part - and that goes for all Nordic countries - were encouraged by the clear statements to this end by the Economic Summit in Paris in July. This history of close cooperation has to some extent left us unprepared to meet the more recent aggressive trade policy. We are sometimes left with an uneasy feeling that smaller nations outside the major trading blocs are more easily picked on in what has been called a "market-opening strategy" - a term that hardly applies to Norway and the Nordic areas as a whole, since there are few markets more open than ours.

As businessmen you will probably appreciate what I mean when I contend that one problem lies in the complexity of the decision-making process in the American political system. Like small business, small nations often get the feeling that their interests are getting lost in the web of crossing interests that provide the background for economic and trade policy decisions in Washington.

Let me reconfirm the commitment of Norway towards a strong and free trading regime, based on the GATT. We have no objections that specific complaints are brought before relevant multilateral bodies for adjudication, which is surely the best way to test whether national policies are in accordance with existing international rules and regulations. We are ready to adhere by the decisions and rulings of the GATT, also those that are not in our favour. We have, in spite of considerable domestic pressure to the contrary, demonstrated this in our recent GATT dispute with the United States on the import of apples and pears. As an example, let me add that over 200,000 Norwegians, or the equivalent of 5 % of our population, protested against the panel's conclusions in a letter to President Bush.

My Government is determined to deal with this situation before it deteriorates further. We will use the multilateral approach wherever this is feasible. At the same time we recognize that we need to establish a closer and more continuous bilateral dialogue on trade issues. Harmonious trade relations can only prosper on an environment of stable and predictable economic conditions. Both the Norwegian and the US Government also have a wider responsibility to ensure that the economic and trading relationship does not strain the very close political and security relationship between our two countries.

Let me end on an optimistic note. Most of the radical changes in world affairs during the last half of the 1980's, are extremely positive. The changes in the Soviet Union and Eastern Europe, the improvement in superpower relations and on East/West issues, and progress in the solution of many regional conflicts have created a much better atmosphere for tackling international problems than we had five years ago. We have set an agenda for the 1990's by establishing sustainable development as a programme of action at the global, the regional and the national levels. We have a strong and growing support in our peoples for urgent action to save our environment. In spite of the inequalities and the imbalances in the world economy, it seems that we can begin the new decade in an atmosphere of cautious optimism about increasing growth rates for output and trade.

Norway is now well positioned to face the challenges of the 1990's. We have achieved a sound foreign economy. Inflation is low and our competitiveness is improved. We will continue our close cooperation with our allies and partners in the United States, Canada and Europe, and with likeminded nations in other parts of the world, to strengthen the emerging global economy, based on the principles of free trade and multilateral cooperation. I feel confident that we will succeed.