

Global economic growth began to slow during the 1985-86 fiscal year. Growth in the volume of world trade was lower as compared to 1984-85; a distorted pattern of exchange rates emerged; large international payment imbalances were growing; protectionist pressures were increasing and the international debt burden was making the economic situation of a number of developing countries fragile. Within the Organization for Economic Co-operation and Development (OECD), the fall in trade volumes was most pronounced in North America and Japan.

A sharp decline in oil prices reverberated throughout the international economy. Oil-producing countries saw a reduction in their revenues which led to a subsequent drop in the volume of their imports. Some oil-importing developing countries will temporarily benefit from the fall in oil prices, but in other parts of the developing world — especially Mexico, Nigeria and Venezuela — the sharp fall has led to economic crisis. Lower oil prices will have some immediate macroeconomic benefit for developed countries, but there were fears that increased demand and reductions in supply would lead to a new inflationary oil-price spiral down the road. In the meantime the petroleum sectors of oil-producing countries like Canada were badly hit by the slump in exploration activity.

In the past year exchange rates have adjusted toward more sustainable levels, particularly after the agreement in September among the United States, Japan, the United Kingdom, France and West Germany to permit a fall in the value of the US dollar. However, since the exchange rate adjustments did not make the expected major contribution to redirecting trade flows and the US trade account continued to run a major deficit, pressure in the United States for trade protectionist legislation increased.

The period under review saw a number of trade problems intensify. Several sharp exchanges took place between the European Community and other trading countries concerning heavy subsidization of agricultural exports; threats of an agricultural trade war raised a damaging prospect for smaller exporting countries such as Canada and Australia. Factors such as the generally weak non-oil commodity prices together with global overcapacity in the steel and other sectors exacerbated the trend toward discriminatory trade interventions and heightened protectionist pressures worldwide.

A positive sign in the past year was a decision by members of the General Agreement on Tariffs and Trade (GATT) to launch a new multilateral trade negotiation which is expected to be long and difficult. There are important areas such as trade in services and export subsidies which will be very difficult to deal with but require international attention. The Canadian government strongly supported the launching of the new negotiation and held extensive consultations with the private sector and the provinces in anticipation of a new trade round.

The government decided in 1985 to initiate a trade negotiation with the United States aimed at concluding a comprehensive bilateral trade agreement. Concerned by US protectionist sentiments and recognizing the importance of long-term Canadian access to the US market, the government considered a new Canada-US trade agreement a vital element in its strategy of economic renewal for Canada. Assured access to the US market would enable Canadian companies to plan and invest with the knowledge that their products could be sold without hindrance in the world's richest marketplace, the North American market, with more than 250 million consumers.

Economic difficulties in the Third World continued over the past year. Despite some notable successes, many Third World countries have found it difficult to restart the engine of economic growth. The major debtor nations in particular have found that their access to new investment capital is being cut off. This situation results in lower economic performance, which in turn makes it more difficult for those countries to service their debt. American Treasury Secretary James Baker has recognized this difficulty and promoted the idea that new investment capital be channeled to Third World countries as part of a growth-oriented economic framework for addressing the international debt problem.

The Canadian government maintained real growth in Canada's official development assistance to Third World countries, although some scaling back of economic targets was necessary. The principal emphasis over the past year has been to refine the development assistance programs and ensure better and more effective delivery of Canadian assistance abroad.

Economic interdependence makes it essential that nations work together to solve their common economic problems. The Canadian government remained committed to working within the annual economic summits of industrialized countries, the International Monetary Fund (IMF), the World Bank, the GATT and other organizations and institutions devoted to better economic co-ordination among countries.

In the past year, Canadian foreign policy was submitted to an unprecedented level of public attention. In May of 1985 the government launched the first-ever Parliamentary inquiry into the conduct of Canada's international relations. A joint committee of the House of Commons and Senate conducted public hearings across the country on all aspects of Canada's international relations. In September 1985, the committee issued an interim report on two of the most pressing issues of the day — Canada-US trade and the Strategic Defence Initiative (SDI). In the period under review Canadians from every region and representing many different interests appeared before the joint committee to give their views about the conduct of Canada's international relations. The high level of public interest and the general tenor of the public submissions suggest that Canadians want to see a foreign policy based on the idea of committed and constructive internationalism.