

Overview

CANADA AND WORLD AFFAIRS

NOTE: The new government under Prime Minister Brian Mulroney assumed office on September 17, 1984. During the period covered by this report (April 1, 1984, to March 31, 1985), the incumbent Ministers were the following:

Secretary of State for External Affairs

The Honourable Allan J. MacEachen

(April 1984 to June 1984)

Minister for International Trade

The Honourable Gerald A. Regan

(April 1984 to June 1984)

Minister for External Relations

The Honourable Jean-Luc Pepin

(April 1984 to June 1984)

Secretary of State for External Affairs

The Honourable Joseph-Jacques Jean Chrétien

(June 1984 to September 1984)

Minister for International Trade

The Honourable Francis Fox

(June 1984 to September 1984)

Secretary of State for External Affairs

The Right Honourable Charles Joseph Clark

(September 1984 to March 1985)

Minister for International Trade

The Honourable James Kelleher

(September 1984 to March 1985)

Minister for External Relations

The Honourable Monique Vézina

(September 1984 to March 1985)

In the year covered by this report, the global economic recovery proceeded at a respectable if uneven pace, and spread further from North America to begin improving performance in Japan, Europe and a number of developing countries. World trade grew at a healthy 8 per cent rate after stagnating during the recession. In most Organization for Economic Co-operation and Development (OECD) countries, inflation stabilized at rates lower than at any time since 1973.

However, even as recovery proceeded, it was generally agreed that there were no grounds for complacency. Although the short-term outlook was encouraging, strains and imbalances in a number of areas threatened prospects for achieving sustained non-inflationary growth. These included unemployment, which was particularly acute in Europe and Canada, and a degree of risk that the US recovery might stall without compensating expansion in Europe and Japan. There was also concern over the international impact of US economic policy and performance, including the unprecedented budgetary deficit, high interest rates, the high US dollar and the United States' huge current account deficit.

High US interest rates and the high US dollar were keeping upward pressure on interest rates in other industrialized countries, with negative implications for growth, while posing a potential inflationary danger as a consequence of high import prices. At the same time, the high dollar posed a serious challenge to the competitiveness of much export-oriented and import-competing American industry, particularly manufacturing, and the current account deficit fuelled strong protectionist sentiment in Congress.

These ongoing problems were sufficiently apparent at the London Summit (June 1984) that Canada and others obtained stronger language than had been initially envisaged on the need for a collective effort at combatting unemployment, interest rates, inflation and budgetary deficits. At the Summit, Canada successfully advanced an initiative for a study of sources and patterns of structural adjustment.

The pace of world trade continued to improve after the London Summit, with total volume for 1984 up 8 per cent over the previous year. During this period, Canadian exports increased 24 per cent, largely as a result of sales to the US. However, some Canadian exports came under protectionist pressure in the US, and the declining competitiveness of Canadian goods in several sectors gave cause for concern. More broadly, there was a continuing danger of major protectionist actions by the US government as well as some possibility of European protectionist reaction against Japan.

Against this background, progress towards a new round of Multilateral Trade Negotiations (MTN) was slow. The London Summit declaration called for a decision on timing "at an early date", but throughout 1984-85 some countries continued to resist a commitment to a specific date for the commencement of MTN negotiations. Canada was positively disposed towards a new round of negotiations and worked for a consensus on timing in forums such as the Summit, the OECD and successive Quadilateral (US-European Community-Japan-Canada) trade ministers meetings.

The combination of opportunities and challenges presented to Canada by global trade and macro-economic trends became a major preoccupation of the new Canadian government in the autumn of 1984. The government emphasized the importance of releasing dynamic market forces and improving national competitiveness, and stressed the importance of Canada's economic relations with the United States (particularly in a time of growing American protectionism). The government moved quickly to improve the domestic climate for investment in Canada and consulted widely on trade policy and promotion strategies.

1984-85 saw some amelioration of economic problems facing the Third World. The acute difficulty posed by massive indebtedness receded during the year, as a result of both recovery in the industrial world and adjustment by debtor