Chapter 1
CANADA AND WORLD TRADE

Trade and the international economic environment

In 1982, the world recession shook the international economic system. Bankers held their breath for fear that parts of the global system of trade and finance would disintegrate. Unusually high interest rates in the United States were linked to growing inflation and unemployment in the West. In an economically unsure world, some Western governments introduced measures to protect and assist their ailing industries against cheaper imports. At the same time, some countries and groups of countries attempted to bolster their export markets through credits and subsidies to both producers and buyers. Such measures prompted disputes between countries competing for the same market. Many of these actions were contrary to the general consensus favouring the liberalization of trade. Serious trade disputes erupted between the United States and the European Community (EC) which threatened to prejudice long-standing economic relationships.

The recession hit developing countries particularly hard. Falling commodity prices and declining export markets meant a loss of revenue. Oil-importing countries, burdened by high import bills and falling export revenues, faced rapidly increasing foreign debts. Some oil-importing developing countries had to spend up to one-quarter of their export earnings to pay their oil bills. Ironically, the drop in oil prices, although it brought relief to some Third World countries, eroded the credit-worthiness of oil exporters such as Mexico and Venezuela. For many countries, the proportion of debt subject to short-term arrangement rose sharply, making refinancing imperative. The International Monetary Fund (IMF) attempted to lead the way through the minefield by helping lenders and debtors to consolidate and reschedule debts.

The climate surrounding the Toronto meetings of the IMF and the World Bank in September was one of crisis and concern. The World Bank had a week earlier called the first years of the 1980s "the most prolonged period of economic slowdown since the 1930s." Mexico had just announced its decision to nationalize its banks, a move which demonstrated the fragility of national economies with rapidly increasing deficits. At the IMF meeting, developing countries grouped together to urge the doubling of quotas and an easing of terms and conditions for borrowing. This urgency resulted in the later decision to increase IMF quotas and enlarge the General Arrangements to Borrow, which are prerequisite for standby credit.

Prospects for East-West trade had been clouded by the growing difficulties faced by some East European countries and their increasing debt. The Versailles Economic Summit in early June revealed that Western countries differ in their interests and approach to the Eastern bloc countries. At Versailles, and at the Bonn NATO Summit Meeting, also in early June, some progress was made on a more unified approach that would accommodate these various interests. However, later that month, the difference in attitudes between the United States and other countries toward trade with the Soviet Union became a major irritant. Canada joined European countries in protesting a U.S. decision to extend an embargo on supplies and technology for the Siberian pipeline to foreign subsidiaries of U.S. companies.

The disheartening international economic picture had a significant impact on Canada. This country is heavily dependent on international trade, with more than 30 per cent of its Gross National Product (GNP) generated by exports. Canada recorded a record trade surplus in 1982 – $17.8 billion, up from $7.2 billion in 1981 – but this was a result of a decrease in imports, not an increase in exports. Imports were down 13.6 per cent from 1981. Canada's GNP also declined (4.8 per cent) for the first time in nearly 50 years. As in other countries, deficit spending was up, unemployment rose and the inflation rate and interest rates were intolerably high. The combined impact of these complex forces hit export-dependent Canada hard. Although Canadian leaders promoted the view that a reduction of interest rates should be the most important single goal, the immediate problem – an increase in protectionist measures by trading nations – was a very major concern for Canada. At the Geneva GATT meeting in November, Canada argued strongly in support of measures aimed at ensuring secure access for exports. Attending countries agreed to a series of resolutions concerned with the liberalization of international trade and the avoidance of more protectionism.

Regional trade patterns

With its main trading partners, Canada's trade performance in 1982 was a replica of its overall trade performance for the year. While exports expanded to the United States, Japan, and the Soviet Union, imports from these countries declined. Canada's crucial trade relations with the United States came under some strain. Increasing protectionist pressures in the U.S. Congress resulted in some "Buy American" provisions which had an adverse effect on some Canadian exports such as specialty metals. Canadian lumber, specialty steel and potato exports were also subject to special