

provincial co-operation in the international arena. Canada's responsibility in ensuring its future success is all the more important as it was to play host to the second Summit, in Quebec City, in the autumn of 1987.

The year under review witnessed a continuation of the economic expansion in industrialized countries that followed the recession of 1981-82, but at a somewhat reduced pace. Interest rates declined as inflation remained low, but at the same time pressures accumulated for more extensive structural adjustment. The exchange rate of the US dollar fell markedly against the yen and the deutschmark during the year, largely as a result of the payment imbalances and persistent disequilibrium affecting the economies of the United States, Japan and the Federal Republic of Germany (FRG). Protectionism rose, particularly in the United States. An agricultural subsidy war broke out between the United States and the European Community, which exacerbated the already acute weaknesses in agricultural commodity markets. Oil prices declined sharply early in 1986 with the collapse of OPEC price support arrangements, but tended to stabilize at a lower level later in the year. Advances in the integration of global financial markets in this period increased the tendency for financial flows to react to policy developments and market uncertainties on a very large scale.

Canada has been a leading participant in international efforts aimed at promoting and sustaining effective multilateral economic institutions and disciplines. The negotiations for a comprehensive bilateral free trade agreement with the United States, which formally got underway in May 1986, were expected to contribute to progress towards an improved multilateral trade framework, in the course of achieving their main objective of securing unimpeded market access in both countries for a wide range of goods and services (see Chapter 4). Major bilateral trade confrontations which arose with the United States over softwood lumber and shakes and shingles demonstrated how difficult and important an agreement would be to both countries.

Canada's Prime Minister raised the issue of agriculture at the Tokyo Summit and elicited general support for developing international disciplines in this sector. As a result of this Summit, Canada was invited to participate in the G-7 Group of Finance Ministers, who are involved in addressing central questions of policy co-ordination and exchange rate stability. Canadian representatives were active at the Ministerial Meeting at Punta del Este in September that launched the Uruguay Round of Multilateral Trade Negotiations (MTN), working through informal co-operative groupings of interested countries. The mandate for the MTN provides a good basis for achieving significant results in such areas as agriculture, services, safeguards, dispute settlement, and the trade-related aspects of investment and intellectual property.

The problem of unsustainable levels of indebtedness in many developing countries of Africa and Latin America remained unresolved, although there was a good deal of support among governments for solutions based on a growth-oriented approach. The links between development, solvency, financial stability, export growth, trade policies and monetary-fiscal policies came to be more fully appreciated, in both their positive and negative dimensions.

Canada has maintained its role as a leading supporter of development in the Third World, both through continuing assistance programs and through related general policies. It strongly supported the establishment and operation of the International Monetary Fund (IMF) Structural Adjustment Facility and the successful completion of the International Development Association (IDA) VIII replenishment. The Canadian announcement at the Thirteenth Special Session of the UN General Assembly of a moratorium on Official Development Assistance (ODA) debt of 14 Sub-Saharan African countries was one of the highlights of that session.

In 1986-87 the foreign policy review process, begun by the government in 1985, was completed with the tabling in the House of Commons in December 1986 of a full response to the report of a parliamentary Special Joint Committee, which had held hearings and received testimony over a 12 month period on Canada's international relations.

In its response the government was able to agree to the great majority of individual recommendations and reaffirmed its intention to pursue an activist, internationalist foreign policy which would both advance Canadian interests and seek to use Canadian influence in the interests of a stable and humane world order and of global economic prosperity. Particular emphasis was laid on safeguarding international peace and security, trade and economic policy, international development, promoting human rights and Canada-US relations. In recognition of the increasing importance of the Arctic, one chapter was devoted to the northern dimension of Canada's foreign policy. The government made clear that in implementing foreign policy it intended to continue its dialogue with Canadians. In the months immediately following tabling of the report, the government moved to put into effect the undertakings it had made.

During the fiscal year 1986-87 covered by this report, the Right Honourable Joe Clark was Secretary of State for External Affairs. On June 30, 1986, the Honourable Pat Carney was appointed Minister for International Trade, replacing the Honourable James Kelleher, and the Honourable Monique Landry was appointed Minister for External Relations, replacing the Honourable Monique Vézina.