

on the other. The growth of interdependence has caused economic issues to assume an increasingly important place in foreign policy, and foreign policy to assume an increasingly important place in national economic policies.

### **Economic Policy Cooperation**

*The tools of international management have not kept pace with the growth of interdependence.*

The accelerating international exchange of goods, services and capital has created new and profound ties among countries. Dealing with this reality constructively — so as to permit the pursuit of national policies without undermining the international system — is the primary challenge facing economic policy-makers. Regrettably, the tools of international management have not kept pace with the growth of interdependence. In part, this results from insufficient knowledge and differing views of the ways in which economic phenomena interact. It also results from a lack of political commitment by individual countries to pursue economic policies which are responsive to the needs of both the international system and their domestic constituencies. Domestic considerations have tended to block market-responsive changes in the economic structures of various countries.

The operation of the floating exchange rate system has resulted in problems that were not fully anticipated when the fixed exchange rate regime was abandoned in the 1970s. While floating exchange rates have permitted greater flexibility for national fiscal and monetary policies, we have witnessed substantial exchange rate fluctuations. This experience has led to uncertainty about the prospects for monetary stability and to concerns about the implications for trade and investment flows. Finance ministers of the ten largest industrialized countries in the IMF are currently engaged in an examination of the international monetary system. Experience has underlined the importance of improved coordination of national economic policies among the major industrialized countries in order to foster greater monetary stability. There has also been a recognition that intervention by central bank authorities in international exchange markets can play a role in countering disorderly conditions. In a floating exchange system, however, rates are set by the markets; there are limits to government influence. At the same time, the global nature of financial and capital markets and the size of cross-border capital flows make it difficult to envisage alternatives to a floating exchange rate regime.

The principal current example of the ways in which trade and financial issues interact is the impact of the U.S. dollar on the global economy. The recent strong economic recovery in the U.S. has benefitted Canada and other countries. But capital inflows to the U.S. — reflecting high real interest rates and confidence in the U.S. economy — have forced the U.S. dollar up to a level that has produced a huge and growing U.S. trade deficit. This, in turn, is feeding protectionist sentiment in some parts of the U.S. economy. The U.S. is expected to become a net foreign debtor this year for the first time since 1914.

*Canada has a vital stake in the continuing development of international economic cooperation.*

As a trading nation, Canada has a vital stake in the continuing development of international economic cooperation; we are active participants in the major economic organizations pursuing this objective. Our Prime Minister participates in the Economic Summit, the principal forum devoted to economic coordination among the largest developed countries. We are also full participants in most other key multilateral forums where international economic issues are discussed and consensus is developed on policy directions, such as the IMF, the Organization for Economic Cooperation and Development (OECD) and the GATT.