Chapter 2

CANADA AND WORLD TRADE

Trends in world trade

During 1987 the volume of world trade expanded by 4.0 per cent, as opposed to 3.5 per cent in 1986 (GATT statistics). Whereas in 1986 much of the growth had come from an expansion in energy trade, following a drop in oil prices, the expansion in 1987 was principally in non-energy items. The dollar value of world trade rose 15 per cent in value terms, with much of that rise being due to the continued devaluation of the U.S. dollar against most other major world currencies. World markets for products and services were marked by an increasing rhythm of expansion during 1987, interrupted only temporarily by the uncertainties connected with the global stock market crash of October 1987.

In 1987 trade in goods continued to be strongly influenced by other aspects of the world economy exemplified in some of the main trade policy issues of this period. Thus, the payments imbalances among the main trading countries, the effects of volatile exchange rates on competitiveness, the export and import requirements of heavily indebted countries, and the inclusion of trade in services as part of bilateral and multilateral trade accords were prominent topics of international discussion. The signing of the Canada-U.S. Free Trade Agreement and the early stages of the Uruguay Round of Multilateral Trade Negotiations both served to confirm the increased salience and complexity of trade policy questions in an era of economic interdependence.

The increasing protectionist pressures that had accompanied growing payments imbalances in the first half of the 1980s remained a problem during 1987, and not least in the United States. These pressures were, however, kept in check by political leaders committed to trade liberalization and by the manifestation of market-induced adjustment processes, which became more apparent as the year progressed. This adjustment arose both from changes in aggregate demand among the major developed countries, and from the gradual absorption of relative price differentials among them.

The commodity composition of world merchandise trade remained stable in a situation of moderately increasing demand. The value of agricultural exports increased by 4 per cent, and that of manufactures by 3 per cent (UN figures). Manufactures now account for over two-thirds of world exports, and, of these, electronic goods for 7.6 per cent — a share that has been increasing steadily in the last decade. Energy prices recovered somewhat from their sharp fall in 1986, but by a much smaller magnitude. Prices for most metals were up, and copper and nickel in particular benefited from robust markets. During the second half of 1987 and early 1988 there was a general rise in commodity markets, extending even into certain agricultural ones. Agricultural markets were assisted by indications of possible new limits to subsidization in some of the main developed country producers (especially, the European Community), but for the most part excess stocks continued to depress prices in most categories.

The secular trend towards greater trade among developed countries, established early in the 1980s, continued. Developed market economies, which had accounted for 63 per cent of world exports in 1980, accounted for 71 per cent in 1988; whereas developing economies dropped in share from 28 per cent in 1980 to 19 per cent in 1988. Centrally planned economies kept their share constant at 10 per cent. The U.S. and the U.K. expanded their exports strongly while the F.R.G. increased its exports only marginally and Japan's exports actually declined. The U.S. trade deficit widened somewhat, from \$144 billion to \$155 billion (US), while the trade surpluses of Japan and the F.R.G. also increased moderately. There were signs, however, that these imbalances were evolving towards a more sustainable trend.

The trade patterns of the heavily indebted developing countries were strongly influenced by their financial requirements. Thus, for instance, the U.S. is traditionally a major supplier of goods to Latin America, but this market lacked dynamism in 1987 because of repayment obligations, making the U.S. imbalance more intractable. Installation of export capacity often required imports of capital equipment and generated additional financing requirements, and it is not surprising that exports of such equipment declined even when, at times, the need for them increased. Indebted countries were under pressure to use every opportunity to maximize export receipts, leading to situations where commodity arrangements involving export quotas did not always prove reliable.

Another group of countries attracting attention in 1987 were the newly industrializing economies of Asia. The Republic of Korea, Hong Kong, Singapore and Taiwan increased their export volume by 22 per cent in 1987, and their collective trade surplus was \$30 billion (although Hong Kong and Singapore's trade was nearly balanced). Most of this growth has been built on the export of manufactured articles, closely integrated into the markets and corporate structures of developed market economies. Other countries of Asia also underwent extensive growth in trade volume and industrial capacity, India and China being the most notable.