
II POLICY IN A GLOBAL CONTEXT

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The international economic system is a network of interdependencies. All countries are affected by economic developments in other countries. Interest rate levels, exchange rate fluctuations, commodity prices, debt burdens — these reverberate throughout the international economy. The more open the economy of a country — and Canada ranks very high on this scale — the more ways it can be affected by developments elsewhere.

The international political and security system is also a network of interdependencies, featuring superpowers, strategic alliances, regional groupings and interlocking bilateral relationships. Global and regional issues interact, often with adverse consequences.

There are also important connections between these two systems, some obvious, some less so. Military conflict has clear economic consequences for the parties to the conflict. But economic interdependence spreads those consequences to countries far removed from the conflict itself through lost export opportunities, restricted access to important resources or threatened default on loan repayments. Defence spending intended, in one region, to purchase stability and security can, through the economic chain of deficits, interest rates and debt, create instability and insecurity in another. Reducing reliance on nuclear arms and increasing reliance on conventional systems is expensive; progress here is hampered by slow economic growth and budgetary constraints. Economic hardship can lead to civil strife or conflicts with neighbours which raise political and security concerns around the globe. Environmental degeneration in one country can adversely affect the natural environment and economic prospects of others; economic policy decisions in one country can damage the natural environment in another. And illegal narcotics production and exports from one country can have serious social consequences in others.

THE INTERNATIONAL ECONOMIC SYSTEM

Failures in managing interdependence after World War I led to the Great Depression and, in part, to World War II. The great statesmen of the post-World War II period foresaw the advantages of a stable, global trade and finance system and built the requisite institutions. The General Agreement on Tariffs and Trade (the GATT) has provided a set of rights and obligations covering the trade of virtually all industrial, agricultural and fish products. It is

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