

PART A

Chapter 2: THE INTERNATIONAL ECONOMIC SYSTEM

General economic policy

Canada and the other major Western industrialized countries continued to seek appropriate policy responses to the range of interrelated economic and energy problems which persisted throughout the year, including: high rates of inflation; low rates of growth; serious unemployment; large current account deficits; low productivity; improved but still lagging investment; and reduced but potentially troublesome international payments imbalances—all of which were exacerbated by unprecedented oil price levels brought about in part by dramatic political developments abroad.

Given the economic interdependence between the developed and developing countries, the oil-importing developing countries were particularly hard hit, both directly by oil price increases, and indirectly by dampened economic activity in the developed countries. Improved cooperation with the developing countries hence assumed even greater importance for the health of the global economic system (see next chapter). Together with other countries, Canada examined the implications for both the developed and developing countries of making necessary adjustments to the structural changes taking place in the world economy, and of striking a balance between encouraging a shift of capital and labour to their most productive uses and avoiding unacceptable domestic social or economic costs, or a lapse into protectionism. Against this background, the successful conclusion of the Tokyo Round of Multilateral Trade Negotiations (MTN) in the latter part of 1979 was clearly a significant achievement: the MTN results include a worldwide reduction in tariffs of about one third, agreement on a series of important non-tariff codes, and strengthened procedures for surveillance, consultation and dispute settlement. Thus macro-economic, trade, and energy issues have become interwoven challenges for international policymakers, and this was reflected in the multilateral search for solutions during 1979.

Canada played an active role in all principal international economic meetings which took place during the year, including the Fifth United Nations Conference on Trade and Development (UNCTAD V) in Manila in May and June; the meeting of the International Energy Agency (IEA) Governing Board at ministerial level in May; the Organization for Economic Co-operation and Development (OECD) Council meeting at ministerial level in June; the Tokyo Economic Summit in June; the joint meeting of the Board of Governors of the International Monetary Fund (IMF) and

the International Bank for Reconstruction and Development (IBRD or "World Bank") in October; and the annual session of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) in November. As a well-functioning trade and financial system is vital to Canada's economic well-being, Canada also continued to take part in the full range of regular and *ad hoc* multilateral economic consultations aimed at greater international cooperation. Among the examples of significant progress registered was agreement in principle on the creation of a Common Fund to support commodity price stabilization measures.

At home, international developments continued to have a significant impact on Canada's economic situation. The double-digit inflation rates faced by most of our major trading partners, together with energy, labour, and food-related cost pressures, contributed to continued inflation in Canada. On the other hand, the unemployment situation improved somewhat. Total output increased marginally, and the downward adjustment of the Canadian dollar on foreign exchange markets led to an improved competitive position in world markets. Canada's merchandise trade surplus rose to about \$4 billion in 1979; however, the rise in net payments abroad resulted in a large current account deficit for the year.

Canada's international activities and the positions adopted by Canadian representatives took full account of the domestic situation and its implications. Fundamental Canadian positions were also based on recognition that, in an increasingly interdependent world economy, satisfactory progress on shared economic problems would be achieved only by continued effort to ensure that measures endorsed internationally were realistic and equitable. For example, as a result of concentrated and sustained effort over the six years of multilateral trade negotiations held in Geneva, which were characterized by consultations with the provinces and with domestic business, labour and consumer interests, Canadian negotiators gained improved access to export markets for Canadian producers of agricultural, fisheries and industrial products. The reduction or elimination of a wide range of tariffs and the improved international discipline over non-tariff barriers will be of benefit to Canadian exporters and should encourage more efficient production in Canada.

At the OECD ministerial Council meeting in June to map a macro-economic strategy, the industrialized countries carried forward the concerted action program adopted in