

Chapter 2

CANADA AND WORLD TRADE

Trends in Canada's international trade

The performance of world trade from 1980 to 1982 was the poorest in 35 years (based on a two-year average). By the end of 1983, however, world trade was recovering, sustained largely by US imports, a pattern which continued strongly in early 1984. Growth in the latter part of last year allowed the volume of world trade to increase by about 2 per cent, although in absolute terms the average level for 1983 was still below that of 1981. The recovery of trade was most notable amongst the industrialized countries, as the reduced capacity of certain developing countries to finance imports continued to constrain their trade.

Canada's trade performance in 1983 reflected economic conditions at home and abroad. Imports surged as consumer spending increased, and exports also showed a strong volume increase of 9.6 per cent. The trade surplus of \$15.4 billion for 1983 was thus qualitatively different from the record 1982 surplus, which had resulted from a steady export volume set against declining imports. The first quarter of 1984 continued the pattern of late 1983: fluctuating prices and solid growth in the volume of trade leading to repeated monthly trade surpluses (although these were lessened by the relative strength of the Canadian dollar overseas and by fast-rising import levels).

Regional trade patterns

Regionally, Canadian trade showed some divergence from the over-all pattern. The United States was by far Canada's largest supplier and customer, with over 70 per cent of both exports and imports. Two-way trade expanded, led by manufactured products (especially consumer goods, including automobiles); our year-end surplus grew by over \$2 billion, to \$10.3 billion. In this respect Canada and the USA's other trade partners benefited from the strong US dollar and the recovery in consumer spending and investment there; however, the staggering trade deficits that these factors were producing fuelled protectionist pressures in the United States, which threatened Canadian export interests. Import relief measures were taken on specialty steels last summer, for instance; in the absence of satisfactory compensation for the damage to our trade interests, Canada withdrew equivalent concessions from the United States under GATT Article XIX. (These were reinstated following the exemption by Congress of cement from "buy American" provisions in the US Surface Transportation Assistance Act, by way of compensation.) Beef, veal, sugar and sugar preparations were all subjected to restrictive measures by the United States.

Trade with the European Community suffered principally in consequence of the depth of the recession there, the relative slowness of the economic upturn, and the relative strength of the Canadian dollar. Exports to each of the ten countries declined, making a 10 per cent drop over-all, while imports

from several (notably West Germany) expanded; Canada's trade surplus on two-way trade of some \$12.8 billion accordingly dropped to less than a billion dollars, under half its 1982 level. A number of trade-related actions by both sides also perturbed Canada's commercial relations, such as the Community's decision to reduce its duty-free import quota for newsprint at the beginning of 1984. Despite recent trends, Western Europe remained Canada's largest foreign market after the United States, taking 8.5 per cent of our total exports.

The record with Pacific Rim countries was mixed. Exports to Japan, Canada's second-largest individual trade partner, grew modestly, while imports soared, particularly in the motor vehicle, computer and telecommunications equipment sectors. Our traditional trade surplus was thus sharply cut. Imports of motor vehicles into Canada constituted the single most important trade issue, as the domestic market recovered and Canadian producers continued their efforts to adjust to changed consumer requirements. After Japan, China remained by far Canada's largest market in Asia, taking more than \$1.6 billion of our exports (led by wheat, wood pulp and metals, as in the past, but including some significant sales of manufactured products). Modest declines in exports to Hong Kong and the members of the Association of Southeast Asian Nations (ASEAN) were offset by increased sales to South Korea. Exports to Australia and New Zealand continued their decline, as did imports from the former.

In Latin America and the Caribbean, the period continued to be marked by debt reschedulings, strict foreign exchange controls, and extensions of import licensing requirements. In addition, the softness of world petroleum markets reduced the ability of oil exporters such as Mexico and Venezuela (as well as many Middle Eastern countries) to finance imports. In spite of these adverse conditions the decline in Canadian exports slowed — indeed, sales to Cuba, Brazil and Colombia grew — and the downward trend of imports was reversed (except for Venezuela, from which Canada imported less petroleum). Manufactured goods contributed about 55 per cent of the \$2.8 billion in exports to the region in 1983.

In terms of commodities, 1983 was a year of building on traditional strengths, as strong export gains were registered in softwood lumber, crude petroleum, telecommunications equipment, automobiles, trucks, chassis and parts. Together those items comprised over one-third of domestic exports. Exports to the United States were led by petroleum, natural gas and related products; newsprint, pulp, and softwood lumber; and trucks, automobiles and parts. For the European Community the leading commodities were wheat, wood pulp, newsprint, and various metals and ores; for Japan, coal, lumber, ores and grains. Imports of crude petroleum continued to decline and exports to rise, leading to a trade surplus for this product. An increase in imports of automobiles and consumer goods was stimulated by the upswing in consumer