

Chapter 2

CANADA AND WORLD TRADE

Trends in world trade

The growth of world trade slowed considerably in 1985. The volume of world merchandise trade is estimated to have expanded by only 3 per cent, compared with a marked upswing in world trade growth of about 9 per cent in 1984. This slower pace of growth in international trade was mainly due to sluggish commodity markets and unimpressive growth in service sector trade. While the share of services in national income has been growing noticeably, the share of trade in services in world trade has remained virtually unchanged over recent years.

The growth of exports in agricultural products declined from an average annual rate of 3 per cent during the 1973-79 period to minus 2.5 per cent in 1985. Exports of minerals, which had increased at a rate of 1 per cent in the 1973-79 period, declined to minus 3 per cent in 1985. The trade in manufactured goods grew at 5 per cent, the only source of strength in world trade in 1985.

Import growth among developed economies was highly uneven in 1985 and was largely concentrated in the United States, which accounted for about 40 per cent of total world increases in imports. Factors included the faster overall economic growth in the United States together with the relative strength of the US dollar during this period. Japan's imports increased only marginally while imports of the European Economic Community (EEC) increased modestly. There was a decline in the absolute value of both imports and exports of the developing countries in 1985, a key factor in the world trade slowdown in that year. Over the past two years, while import growth in the Soviet Union remained sluggish, imports by Eastern Europe picked up as these countries strengthened their external payments situation. The volume of imports into China rose by nearly 50 per cent in 1985 due to the modernization programme and the liberalization of trade in certain sectors.

Trends in Canada's international trade

Canada's exports in 1985 rose to \$119.2 billion, a 6 per cent growth of \$6.9 billion over the previous year. This increase compared modestly to Canada's 24-per cent increase in exports in 1984. Imports rose \$9.4 billion in 1985 or about 10 per cent, reaching \$104.9 billion in 1985. This total yielded a favourable Canadian global trade balance of \$14.3 billion in 1985, down from the \$16.9 billion overall trade surplus in the previous year.

More than 90 per cent of Canada's exports were destined for other developed economies, principally the United States. The developing world and the centrally planned economies

absorbed about 6.7 per cent and 2.6 per cent of Canada's exports respectively. While the developed countries supplied about 89.5 per cent of overall Canadian import needs in 1985, the developing and the centrally planned economies accounted for roughly 9.8 per cent and 0.7 per cent, in that order. An examination of trade patterns during the first half of the 1980s indicates a slight but gradual erosion of Canada's trade links with the developing and the centrally planned economies.

Regional and commodity trade patterns

The regional pattern of trade flows illustrates the importance of our trading links with the United States. Canadian exports to the States totalled \$93 billion last year, an increase of 9.5 per cent over 1984, and represented 78 per cent of Canada's total exports. Imports from the United States amounted to \$74.4 billion, a 9 per cent increase over the preceding year, and accounted for 71 per cent of Canada's total imports. The resulting surplus on the balance of merchandise trade with the United States stood at \$18.6 billion; however Canada remained in a decidedly deficit position with the United States in the non-goods sector.

In 1985, relatively weaker growth in the United States, slower growth (relative to the previous year) in demand for Canadian-made motor vehicles and stronger recovery of the Canadian economy reduced the growth rate of Canada's exports to the US market. The continued trade deficits of the United States with its main trading partners have aroused protectionist sentiments in Congress that could adversely affect trade volumes. Various proposals have been made, and in certain instances measures taken, to restrict Canada's exports to the United States in a number of sectors.

Japan is now Canada's second-largest trading partner. Canada's exports to Japan surpass our sales to the non-US Summit countries combined (Great Britain, West Germany, France and Italy). Two-way trade between Canada and Japan reached \$11.9 billion in 1985; but Canada's earlier bilateral trade surplus with Japan turned into deficits in both 1984 and 1985.

In the latter year Canadian exports to Japan totalled \$5.8 billion, and made up about 4.8 per cent of Canada's total exports. This represented less than a 2 per cent growth in 1985 as compared to a 19 per cent export growth rate in the previous year. Sales of coal and rapeseed alone amounted to about 34 per cent of Canada's exports to Japan. Imports from Japan amounted to \$6.1 billion, creating a Canadian trade deficit with Japan in excess of \$300 million. Canadian imports of Japanese automobiles (in terms of values) increased by 27 per cent in 1985 despite voluntary export restraints