

## Chapter 1

# THE INTERNATIONAL ECONOMIC ENVIRONMENT

### Canada and the international economic environment

In 1983, the 24 member countries of the OECD began to recover from the deep recession of the previous year. Inflation and interest rates receded from the very high levels reached in 1982, energy prices were stable and world trade began to revive. The OECD ministerial meeting and the Williamsburg Summit endorsed the disinflationary policies that had brought down inflation, and projected a tone of confidence that the necessary conditions existed for a sustained and global recovery.

Yet, as Canada and others pointed out in various multilateral forums, serious strains in the international economic system persisted. The recovery in North America and Japan was more robust than that in Europe, where very high unemployment persisted despite the gradually improving economic situation. Real interest rates in the United States and elsewhere remained high by historical standards, and concern about the effect on those rates of large future US budget deficits was beginning to mount. During the year the US dollar appreciated against other major currencies, exacerbating the US balance of payments deficit and creating fears of an eventual destabilizing decline of the US dollar. Protectionist pressures persisted in both Europe and North America, while the incidence of trade-restrictive measures remained worryingly high. The serious debt problems of a number of Latin American and East European countries, in which Canada had a considerable stake, continued to be successfully addressed, using the Williamsburg "strategy" of adequate financing, open markets and adjustment in the debtor countries. However, the size and possible social and political complications of some of these debt crises continued to preoccupy the international financial community.

### International financial and investment issues

The international financial situation was a major concern during 1983 because of the inability of a significant number of developing countries to meet their debt service obligations to governmental and private creditors. Although the debt problems were concentrated in Latin America and Eastern Europe, certain countries in Africa also encountered difficulties. Canada had important commercial interests that were affected by the economic difficulties in these countries. Agencies of the government had loans that were affected, and so had Canadian banks. Canada participated in special multilateral efforts to assist Mexico, Brazil and Yugoslavia in dealing with their economic difficulties. As well, Canada participated in various multilateral meetings with other industrialized countries to develop an effective over-all approach to these debt problems. At the Williamsburg Summit, the leaders agreed on a strategy

that involved International Monetary Fund (IMF)-supported economic adjustment programs by debtor countries, adequate financing, an open trading environment, sustained world economic recovery and close co-operation among all the key players — debtor countries, creditor governments, commercial banks and international financial institutions. There were a number of common features to the international response to individual countries' debt problems — IMF economic adjustment programs, debt rescheduling and new financing to support economic adjustment. Canada, along with other industrialized countries, participated in an unprecedented number of official debt-rescheduling negotiations with debtor countries in the informal group of official creditors known as the Paris Club. This over-all approach was successful in containing the impact of these debt problems on the international financial system, but by the end of 1983 it was evident that the problems would persist for some years and would pose a serious burden on developing countries.

During 1983, there were a number of important multilateral discussions on international investment issues. In the OECD, Canada participated in the meetings of the Committee on International Investment and Multinational Enterprises, which continued its review of the 1976 OECD declaration on investment in order to prepare a report for the 1984 OECD ministerial meeting. In the United Nations, Canada participated in the negotiations to prepare a Code of Conduct for Transnational Corporations. These negotiations were not completed by the end of the year. In the course of the year, at the request of the United States, a GATT panel examined certain trade-related undertakings associated with the FIRA (Foreign Investment Review Act) review process and subsequently Canada made the administration of the FIRA consistent with its GATT obligations as a result of the panel's findings.

Intellectual property and competition policy issues continued to require attention. In particular, in 1983, the Department of Consumer and Corporate Affairs issued a discussion paper entitled "Compulsory Licensing of Pharmaceuticals: A Review of Section 41 of the Patent Act", on which various representations from multinational pharmaceutical companies and foreign governments were received. Consideration of this matter was to continue in 1984.