

continued imbalances contribute to instability and pressures to manage trade. When the aggregated world current account balance for 1988 is considered in relation to gross domestic product (GDP), there were significant improvements. For the United States, the deficit to GDP ratio is estimated to have dropped from 3.4 per cent in 1987 to 2.7 per cent in 1988 — dropping it slightly below the U.K., which experienced a sharp increase. Japan's surplus dropped from 3.6 to 2.8 per cent, while Germany's declined marginally from 4.0 to 3.9 per cent. The relatively slow pace of this adjustment continued to fuel protectionist pressures in countries with deficits. Nonetheless, despite concerns during the year about accumulating pressures from the imbalances, market stability was maintained and substantial growth occurred.

Growth and international trade

Strong growth in the latter part of this decade appears to have benefited from a productive interaction of rapidly expanding growth opportunities and favourable policy changes. Statistics indicate that global markets became less tight for three important inputs: labour services, energy and non-fuel primary commodities. For example, annual increases in unit labour costs in manufacturing in developed countries and also globally during the 1980s averaged about half the 1970s rate. From their peak, the real price of fuels has fallen by more than half. Meanwhile, despite last year's increase, the real price of non-fuel primary commodities remains 20 per cent below its 1979 level.

Short- to medium-term growth prospects of developing country exporters of primary commodities were hindered by declines in real prices. However, supply constraints, which slowed development in the 1970s, eased during the current decade. Meanwhile, technological advances are multiplying opportunities for specialization, innovation and product diversification in world markets. Increasing interdependence and intensive global competition encourage policy changes designed to translate new opportunities into economic growth. All countries have sought to improve industry access to science and technology, to attract outside investment and new technology, to adopt competitive regimes in the fields of taxation and regulation and to foster quality and innovation.

The positive trade performance in 1988 can be attributed to a supportive policy environment. Economic policies in this decade have increasingly focused on encouraging greater competitiveness, more flexibility and responsiveness to pressures for structural change. More recently, the planned elimination of barriers to regional trade among some of the world's leading traders and, more important, the commitment of more than 100 governments to the Uruguay Round of Multilateral Trade Negotiations also had a positive effect on the business environment. Also contributing to the positive atmosphere was the continued low rate of inflation despite six years of continuous global economic expansion, including a pick-up in economic activity over the last 18 months.

Against this must be set long-standing problems relating to Third World indebtedness, large trade imbalances and high rates of unemployment in many countries. In a significant number of developing countries economic growth fell short of population growth. Sizeable reductions in the surpluses of Japan and the Federal Republic of Germany did not materialize. However, the United States was able to

achieve a sizeable reduction in its current account deficit last year without depressing world output and trade at the same time. Persistent efforts to cope with these problems are necessary, but the results in 1988 indicated that needed adjustments were accommodated without excessive difficulty so long as world output and trade grew. Efforts are continuing to control inflation and to ensure a positive business environment in which markets are kept open and business confidence about the future is strengthened.

Economic relations with developing countries

The economic situation in developing countries continued to command significant attention in Canadian foreign policy during the past year. Developing countries constitute a majority of the countries with which Canada has relations: their populations represent three-quarters of the population of the world. Humanitarian concerns and a recognition of increasing global economic interdependence underpin Canada's economic relations with these countries. Heavy debt burdens, limited resource flows and the need for developing countries to implement sound economic policies in order to set the stage for economic growth and development were principal issues during the year.

Developments in aid policy

Development is a complex process and international understanding of this process has been undergoing rapid evolution. The fundamental importance of a sound economic framework as a prerequisite of growth and development continued to be reflected in Canada's economic relations with developing countries. In the international donor community, the diversity of conditions in developing countries was being better recognized and met with a wider range of measures. In particular, the impact of economic policies on vulnerable groups — the poor, women and children — was given greater recognition in economic and development planning, as were the long-term needs of developing countries in the context of a changing international economic climate. Sustainable development — economically, socially, politically and environmentally sustainable development — gained credibility as the guiding principle for development planners in donor countries, as well as in developing countries.

Developing country debt

Since 1982, when developing country debt reached crisis proportions, the international community adopted a strategy to promote economic adjustment and growth, which has resulted in progress. The threat to the international financial system has been reduced significantly. Since the Venice Economic Summit in 1987, the problem of international debt has been seen as essentially divided into two categories: the debt of the poorest countries (mainly those in sub-Saharan Africa) and the debt of middle-income countries (mainly in Latin America). For the poorest countries, whose debt is owed largely to governments or their export credit agencies, a more generous approach was recognized as necessary. Canada's announcement later that year to forgive the development assistance debts of all the countries of sub-Saharan Africa set the stage for similar action by other countries. And at the Paris Club, where government loans both for commercial purposes (such as export credits) and for development assistance are rescheduled, the poorest developing countries were offered longer grace and repayment periods.