

CHAPTER 2: THE INTERNATIONAL ECONOMIC SYSTEM

Commercial and commodity relations

The governments of the industrialized countries, including Canada, continued to be faced with the range of problems that have characterized the international economic environment of the middle and late seventies: inflation, slow growth, high and increasing cost of energy, exchange-rate instabilities, the need for structural adjustment to meet international competition without unacceptable domestic social and economic costs or a lapse into protectionism, and the need to put economic relations between North and South on a sounder and more equitable footing.

Reflecting the urgency of these problems, world leaders devoted increasing time and effort to the search for solutions. Canada played an active role in the Bonn Economic Summit in July and in the North-South Summit in Runaway Bay, Jamaica, in December. The pace of activities in the Organization for Economic Co-operation and Development (OECD), the International Energy Agency (IEA), the General Agreement on Tariffs and Trade (GATT) -- (with respect to the Multilateral Trade Negotiations (MTN) -- and the United Nations Conference on Trade and Development (UNCTAD) -- particularly with respect to the common fund for the stabilization of commodity prices -- quickened significantly during 1978. The resulting progress made it possible to look towards 1979 with reasonable optimism that the year would bring agreement on major issues affecting the international trading environment.

Energy continued to occupy the attention of governments. In an initiative promoted by Canada, the Bonn summit leaders requested the World Bank and the OECD to make new efforts to increase the hydrocarbon and renewable-energy resources available to oil-importing developing countries. An apparent world over-supply of oil quickly disappeared at the end of the year as turmoil in Iran affected that country's oil exports, leading Canada and other members of the IEA to renew their attention to reducing demand on world oil-markets. On the nuclear side, Canada concluded upgraded safeguards agreements with the European Community and Japan and resumed uranium deliveries to those two major nuclear powers. Canada also emerged as a major participant in the substantive work of the International Nuclear-Fuel-Cycle Evaluation (INFCE).

General economic policy

Canada continued to experience major economic problems in 1978, including persistently high rates of unemployment and inflation and further weakening of the Canadian dollar on international foreign-exchange markets. The important linkages between Canada's domestic and international economic problems were underlined in consultations with other industrialized countries.