



Statements and Speeches

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INTERNATIONAL ECONOMIC DEVELOPMENTS AND THEIR IMPLICATIONS FOR CANADA

Address by Gerald Regan, Minister of State (International Trade), to the Canadian Institute of International Affairs, Toronto, October 29, 1982

...Tonight I want to talk to you about international economic developments, their implications for the Canadian economy and trade and the challenges and opportunities which will confront us in the months and years ahead.

First, let me touch briefly on the international economic environment. Since 1980, economic growth in the industrial countries has been sluggish and output has been virtually stagnant for over a year. There has been virtually no growth in world trade over the past 18 months. International economic forecasters have revised downwards their projections of growth for the last quarter of this year and 1983 for almost all industrial countries. Economic recovery, which has been widely predicted for over a year, has not yet taken hold. The impact has been seen in an intolerable increase in the level of unemployment throughout most of the Western world.

Looking beyond the industrialized world we see similar problems elsewhere. Non-oil exporting developing countries are now experiencing average growth of only 2.5 to 3 per cent — the lowest level in years. The oil-exporting countries have as well experienced severe declines in growth in the past three years. Current account balances have shifted dramatically since the second oil crisis, with the industrial countries now registering a slight surplus and the oil exporters of the Organization of Petroleum Exporting Countries (OPEC) a deficit. Estimates of the combined deficits of non-oil-exporting developing countries this year and next range upwards of \$75 billion. Prices for primary commodities other than oil are lower today in real terms than they have been in three decades.

Bleak picture

In a word the picture is bleak and these international developments have had a significant impact on Canada. As the Prime Minister said in his address last week, "The world-wide recession has cut our economy to the bone. No Canadian has been untouched." Canada is of course first and foremost a trading nation and has been from its earliest days. More than 30 per cent of our gross national product is generated by our exports of goods and services. Few countries are as visibly dependent on trade for the development of their economy as is Canada.

Our country does not possess a large internal market. It does not have preferred access to a larger market through a regional trading block. Our prosperity depends upon our ability to sell goods and services in many parts of the world, especially in

the United States, Western Europe and Japan. In the important area of employment, it is estimated that some 950 000 Canadians owed their employment directly to exports in 1981 while a further 950 000 employees in such service industries as transportation, communications and insurance indirectly owed their employment to exports. That adds up to almost two million Canadians whose jobs depend on exports. There is a strong and direct link between our export performance and our over-all economic performance.

But Canadians are obviously not alone in the international market-place. Once again, as the Prime Minister said, "The decline into the deepest recession in half a century has created a harder, leaner world, hungrier for customers, for investment, and for advantage.

"Our challenge, simply put, is to restore Canada's fitness to survive economically in a world where the survival of the fittest nations has become the rule of life."

Protectionism

Trade, which is so vital for our economic well-being and prosperity will, in the immediate future, occur in an international economic environment much less hospitable to our interests. It is imperative that we understand the forces at work and have a strategy to deal with these new realities. What then are the challenges that face us? First, protectionism. Record levels of unemployment in the industrialized countries have generated tremendous political pressures for protection. Fortunately, the world has not forgotten the lessons of the Thirties and governments, while taking some actions, have avoided the massive "beggar-thy-neighbour" policies of the 1930s. But these protectionist pressures are exerting tremendous stresses and strains on governments and on a multilateral trading framework. Unless there is some relief soon, these stresses could become intolerable. In the period ahead, some trade-restricting measures by governments will be unavoidable. What will be important is that governments work together to minimize the adverse effects of these measures and to ensure that these actions do not impair the functioning of the world trading system.

**Keen
competition**

Secondly, the tightness of international markets has led to keener competition, particularly in Third World markets which have been growing relatively more quickly. This has involved aggressive innovations in export credit financing, increased mixing of official credits with aid funds to soften the financing terms of various export transactions, increased attention to barter transactions and buy-back provisions and the increased use of export subsidies. Price and quality of goods are not the only determinants of export sales. Financing considerations, particularly for major capital projects, have become crucial. What we are witnessing is a race amongst industrialized countries treasuries who can ill-afford these expenditures. Greater international disciplines must be negotiated. In the meantime, we remain committed to ensuring that Canadian exporters are not placed at a competitive disadvantage.

At the same time as we face these problems of slow growth and greater protectionist

pressures in the industrialized countries and tighter competition in Third World markets, we also find ourselves faced with a massive challenge of industrial renewal. Adjustments to our industrial structures are required because of the massive changes in energy prices of the 1970s, the rapid industrialization of a number of developing countries, inadequate productivity improvement in our own country and outdated capital stock. All of these forces have combined to create enormous pressures for adjustment and yet these come at a time of no or low growth. Few societies have learned to digest and control this sort of economic change well. Even in times of high growth these changes have proven wrenching. In today's economic environment, they often appear intractable.

And so we find ourselves between a rock and a hard place. Failure to adjust now will seriously impair our ability to return to a faster growth track. However, adjustment now risks adding further strain to an already precarious economic situation. Those countries which fail to adjust will find themselves squeezed in international markets and facing increased pressures to protect domestic markets because their firms will not be able to compete in the trading world of the 1980s. On the other hand, a series of national responses to this industrial challenge which does not take place within an adequate international framework risks creating a new series of policy conflicts. International rules and consultative procedures will require strengthening to avoid this possibility.

Against this rather bleak picture of the challenges facing Canada and the world trading system over the next few years, where do some of the answers lie? Twenty years in public life, including eight years as Premier of Nova Scotia, has taught me that one should not look for panaceas, and I have none to present to you tonight. I do firmly believe, however, that there are a number of steps that we can and should take to begin to meet the challenges I have just described and which, if we do meet them successfully, can lead to improved real standards of living for Canadians even in this more competitive environment.

**Steps necessary
to meet the
challenges**

The first thing we need to do is to work together with our trading partners to ensure the strength and stability of the world trading system. I have in mind primarily the General Agreement on Tariffs and Trade (GATT) which, of course, is the linchpin of the world trading system. The GATT will be meeting at ministerial level next month. This will be the first ministerial-level meeting in nine years and it will be important that we, at that meeting, ensure that the GATT continues to be in a position to play its crucial role. This will require a political reaffirmation of our collective commitment to the free trading system.

Beyond that, it will require us to take steps either at that meeting itself or in the period which immediately follows it to ensure that the GATT can withstand the pressures acting up on it. In order to do this, Canada believes it important that we develop a safeguards agreement to regulate effectively restrictive trade actions which

will be necessary from time to time and to ensure that the system treats all trading countries equally. Similarly, we believe that the GATT dispute settlement system must be strengthened in a number of ways to ensure that it can handle trade disputes which are bound to arise, in a dispassionate and adequate manner that enjoys the confidence of our domestic audiences.

While the GATT provides a contractual framework for our trade relations, consultations on trade policy and in particular the interrelationship between trade policy and other policies such as industrial, economic and competition, take place in a variety of fora. Some of the most important of these include the International Monetary Fund, the Organization for Economic Co-operation and Development and the Economic Summits of the seven major industrialized countries. We must make maximum use of these institutions and strengthen their capacity to keep us working together in a coherent and reinforcing manner.

Secondly, we must move beyond strengthening the system to handle existing strains. We must begin to tackle trade problems in areas which to date have remained largely outside of the trade-liberalizing thrust of the postwar era. I think particularly of trade in agriculture and fish products in this regard. We must as well begin to address totally new areas which are coming to play such a major role in our economies, such as trade in services. The theories of comparative advantage and free trade have guided our economies throughout the postwar period and enable us to enjoy the economic success we have achieved. These principles are equally applicable to the newer areas of economic activity.

Integration

Thirdly, we are going to need to be more successful in integrating the newly-industrializing countries into the world trading system. The Hong Kongs and South Koreas and Singapores will be joined by a number of other countries which will be keen competitors in an increasingly large range of manufactured goods. Levels of protection and special assistance which they have provided to their domestic industries will no longer be appropriate either internationally or in terms of their own domestic economic development. The system will require that these countries increasingly take on obligations more commensurate with their level of development. At the same time we will need to work to ensure that the system responds to their concerns.

Another key test of the GATT ministerial will be to demonstrate that the GATT can serve their interests as well as those of the industrialized countries. Over time this will also mean that the industrialized countries will need to open their markets even more to the exports of developing countries. Developing-country markets have been dynamic ones for our Western economies and, indeed, have helped to mitigate many of the problems our economies faced in the 1970s. However, a great deal of this trade was financed through borrowing by developing countries. The debt levels reached by a number of these countries are now at the point where they have very limited possibilities for further borrowing. They must be able to export their goods into our markets to earn the necessary foreign exchange if we are to expect them to buy our goods.

**Adjustment
process**

This leads me to my fourth point and it is one which I flagged earlier — that is the question of adjustment. Inflation, energy shocks, shifts in comparative advantage, together with greatly intensified competition on a global scale, call for accelerated adjustment or restructuring in the industrialized nations. The theme of industrial renewal is a very important element in the economic development strategy of this government. It means that in those areas where we can be internationally competitive, we must strive to replenish our capital stock, to enhance our productivity, and to aggressively seek out new markets. Human and capital resources committed to sectors where we cannot compete internationally must be redirected towards more productive uses. While certain restrictive measures may be required from time to time so as to achieve an appropriate pace for this adjustment, we must be careful to avoid being trapped into supporting industries which are incapable of ever standing on their feet with all of the costs which this entails for the rest of our society.

The fifth point, and one that is closely linked to adjustment, is the need to control our costs and to enhance Canadian productivity. Much of the Prime Minister's recent remarks were addressed to this particular point. Simply put, a declining standard of real living for Canadians is the only prospect we face if we fail to bring our costs under control. Inflation must be held down, productivity must be increased and quality must become our goal. At the same time we and other countries must avoid a situation where we look excessively at exports and export growth to drive our economies. We face that danger today and, as I indicated earlier, one sees the result in areas such as export credit financing where competition between treasuries could lead to a situation where we pay other countries to buy our goods. One can regard export subsidies of one kind or another as the obverse of import restrictions. Both distort competition. Both carry an economic cost and both need to be resisted. The international institutional mechanisms to provide rules with respect to export competition, and particularly the link between trade and finance, are not strong nor well developed. We will need to make strenuous efforts to strengthen our co-operation in this area in the 1980s.

**Need for
co-operation
between
government
and industry**

The sixth and last point which I wish to make — and in a sense it returns to the theme which I started with — is the need for a much greater public awareness of the issues involved and strengthened consultations between the government and the private sector. Many of my colleagues have been engaged in extensive consultations with business and labour on the economic problems confronting us. The government has as well been undertaking a review of Canadian trade policy so as to ensure its continuing relevancy in the 1980s. A lot of preliminary work has now been completed and we have as well been consulting with the private sector.

To date, meetings with a variety of interests including business, labour, provinces, consultants and academics, have been held to gain a fuller appreciation of the concerns, sensitivities and priorities of people outside Ottawa. These meetings have proved very constructive and the consultations are continuing.

I cannot emphasize too much the importance of this process. An institute like yours can make an important contribution because of the understanding you have of the international dimensions and realities in which we must operate. There is a tremendous role for you to play in helping to bridge the gap between that international environment and Canadian domestic realities and preoccupations to ensure that our responses to a changing global competitive environment are adequate and timely.

There is no doubt in my mind that Canada has the strength and resiliency to successfully confront this new and difficult period. I look forward to working with you in the future as we face this challenge.

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