Canada's Export and Import Record

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ALMOST since Canada was first discovered and developed, her people have known that one of the requirements of a prosperous Canadian economy is a vigorous and constantly expanding foreign trade. For foreign trade is a two-way street: Canadians must export to be prosperous but they also must import to keep their economy operating efficiently on a high level.

To understand why this foreign trade is so basic to the Canadian well-being one must look at the full array of our natural resources. Canada has vast resources of nearly all the primary materials required to make a great industrial power. We have water power, forest reserves, minerals, fisheries and arable land. However some parts of these resources have become very highly developed through the years whereas other parts of them have lain underdeveloped. Why this is so is part of the reason for the importance of foreign trade to Canada. Historically Canadians have found themselves able to produce large supplies of goods obtained from their natural resources. These supplies, far in excess of Canadian demand, were developed because the world had need of them. On the other hand there were other resources, the products of which Canadians required, which were not developed in Canada. These goods had to be imported.

I

IN detail Canada must import for three reasons. The first of these is that we need plenty of coal, iron-ore and petroleum to keep our industrial machine running. Canada has coal to last 2,700 years in Alberta and Nova Scotia. But this coal when transported to Central Canada becomes considerably more expensive than imported United States coal. Although Canada's import requirement of iron-ore is not nearly as large as that of coal, we still must import to some extent. The iron-ore reserves of Quebec and Labrador will not be in production for a number of years. Even when these are in production it may still be necessary for Canada to import iron-ore because we may have requirements of specific types which cannot be met out of domestic production. It is for reasons such as this that Canada exports ore from the Steep Rock Mines and imports other ores for domestic use. In addition, despite the developments in Alberta, Canada still does not yet have sufficient refined petroleum to meet our needs.

Although the absence, maldistribution or underdevelopment of these three commodities have had profound effects on Canada's foreign trade in the past, it is obvious that in the future the changes which are taking place in their development will also effect equally profound changes in our export and import pattern.

Secondly, Canada must import because it is located in the north temperate and sub-arctic zones. There are many commodities, mostly agricultural in character, which Canada cannot produce. These are such goods as citrus fruit, natural rubber, semi-tropical grains, cotton, tea, coffee and many others. In the early days of Canadian development the demand for these goods was quite small, but with a greater diversification of the Canadian economy, with an increasing population and with a rising standard of living of the Canadian people, these types of imports have become very large, although smaller than the imports of coal, petroleum and iron-ore.

There is yet another reason why Canadians import. This is because there are a few manufactured goods which require a large market if their prices are to be reasonable. The Canadian manufacturing industry has been fairly widely protected by import tariffs in the past so that many goods produced in Canada were more expensive than their American counterparts. But this situation is not nearly so prevalent now as it was in the earlier years of the Twentieth Century. Nevertheless a few commodities if manufactured in Canada would be excessively more expensive than their imported equivalents. These goods, notably industrial machinery, are not made in Canada in nearly sufficient supply to meet the domestic demand, particularly in times of prosperity. Thus in 1947, 1948 and 1949 industrial machinery was the largest single Canadian import.

In essence, then, Canadians import so heavily because of the environment in which they live and because of the smallness of the population. They export for similar reasons. As suggested earlier the very raison d'etre of Canadian development was export trade starting from furs and developing into a variety of products. The great primary industries of Canada, if they were to be opened up to their maximum efficiency, required markets much larger than the domestic market. These foreign markets became available because Canada was able to supply abundantly and cheaply the goods which were required for the huge industrial expansions of the Twentieth Century.

It is notable that Canada's bulk exports in 1950 are derived from the same sources as they were at the time of Confederation. At Confederation furs, lumber, fish and cheese were Canada's principal exports. Now these products are still important but others have been added: wheat and flour, pulp wood and wood pulp, newsprint, and minerals. These latter products came later in our export picture for they all require heavy capital expenditures—expenditures which were not possible in the early stages of Canadian development.

It is also important to note, when thinking of Canadian exports, that although there has been a large expansion of the domestic manufacturing industries since Confederation there has not been a concomitant change in the export pattern. Our most important exports remain those of our basic industries. Further these exports are still mainly shipped out of Canada in their natural condition. There have been some changes in this latter respect: we now ship a greater proportion of flour to wheat; we ship more newsprint than wood pulp and pulp wood and we process our fish products more. Nevertheless these changes, although of considerable importance, are not equivalent to the other changes which have taken place in the industries designed to supply the domestic market alone.

Canada's trade has shown a lack of diversification not only in the products exported but also in the number of countries with which we trade. In 1868, Canada's total foreign trade amounted to $116 million, of which 90 per cent was done with the United States and the United Kingdom. In 1919, the equivalent figures were $2,231 million and 83 per cent—and in 1948, $5,747 million and 75 per cent.

The answer to why so much of Canada's trade is with these two countries is to be found in a number of reasons. In the first place because of the close association with the United Kingdom in Canada's early development, that country has always been the traditional market for Canadian raw material exports. Until comparatively recently the Canadian and British economies were fairly complementary with Canada exchanging materials, either raw or processed, against manufactured goods of wide variety. In addition the preferential tariff also encouraged the flow of trade between the two countries. In the last several decades the situation has changed, so that with the industrial growth of Canada we turned to the United States as a supplier of coal and petroleum. Further the large movement of American branch plants into Canada since the turn of the century has also helped to establish Canadian industry on a New World rather than an Old World basis. With this development came the Canadian demand for United States machinery. Canada's proximity to the United States has meant that the Canadian consumer has become more accustomed to American goods than British and this also has meant heavy imports from the United States.

For many years Canada has exported more to the United Kingdom than it has imported, and imported more from the United States than it has exported. This is clearly shown in the adjoining table.

SYNOPSIS OF CANADIAN FOREIGN TRADE FROM CONFEDERATION TO 1949

Millions of Canadian Dollars

Annual Average in Each of the Following Periods	EXPORTS*			IMPORTS		
	Total	United States	United Kingdom	Total	United States	United Kingdom
1868-1877	65	30	28	94	37	49
1878-1887	79	34	37	97	44	41
1888-1897	98	38	52	109	52	38
1898-1907	184	62	103	208	123	52
1908-1913	282	104	140	443	273	104
1914-1918	855	247	596	679	504	81
1919-1928	1127	431	411	976	664	158
1929-1938	777	288	280	697	431	128
1939-1945	2245	851	781	1429	1089	149
1946-1949	2788	1231	686	2475	1785	249

*Exports of Canadian produce only.

The fact that Canada has this fundamental imbalance in its foreign trade is the reason for its particular problem in to-day's trading world. Before the second war, the United Kingdom and other countries which had an import deficit with Canada, were able to meet this deficit out of convertible currency earned abroad through investments, shipping and other invisibles. Thus Canada could redress its deficit with the United States by its surplus with the rest of the world.

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BEFORE we take up one of the most interesting and challenging problems with which Canadians are now faced, i.e., the result of two World Wars upon Canadian foreign trade, let us look at Canada's past import policy and its effects. Under the British North America Act the Dominion government was entrusted with tariff-making powers, but it was not decided until 1878 whether these powers should assume the passive role of supplying the federal treasury with funds or the active role of protecting Canadian industry. Although there was considerable pressure in Quebec and Ontario for this latter activity, the Maritime Provinces, particularly Nova Scotia, having established their economy on free trade, wished it to continue. But the pressure of history was against them and the Canadian economy, beginning the switch from wood to iron, needed to have its infant industries protected.

The effects of the tariff have been threefold: upon the development of Canadian industry; upon its burden among the various sections of the country, and upon Canada's external relations with the United States and Great Britain.

The tariff has been an important factor in the growth of the Canadian manufacturing industry. This growth was not at all evenly distributed in Canada, rather it was concentrated in the Central Provinces. The nature of the development was also conditioned by the tariff so that the industries were rather more of the horizontal than the vertical type. There is little in Canada to correspond with the huge industrial dynasties of the United States. On the whole the industries which did develop in Canada under the influence of the tariff were assembly industries, producing goods at a high stage of fabrication.

There is an important by-product of this development. The secondary industries which have become established in Canada under the protection of the tariff are, on the whole, designed to meet domestic needs, whereas the primary industries have been developed largely to meet export demand. It is difficult for Canada to exercise much control over the maintenance of effective foreign demand for Canadian primary products during a depression. On the other hand it is theoretically quite possible to maintain a high level of activity in many of the manufacturing industries by assuring an adequate level of Canadian employment and income. Despite this the increasing of protection in a depression seems to contribute very little to its alleviation. In 1930 Canada raised its tariff considerably, partly as a retaliation to the American Hawley-Smoot tariff, but this had no perceptible effect upon the course of the depression. It seems that this policy is one of putting the cart before the horse since, even if industry is well protected, it cannot expand if the necessary investment funds are not forthcoming.

Probably the most contentious aspect of the tariff is the incidence of its burden upon the various sectors of the Canadian economy and areas of the country. Traditionally the Western Canadian farmer has found the tariff particularly burdensome when he had to purchase goods on a protected market and sell his goods on a foreign market especially subject to price fluctuations. The Western farmer was the most vocal of the groups complaining of this sort of treatment but it was just as applicable to any industry in similar circumstances. At present this problem is not nearly as predominant as it was before the war for three reasons: most of Canada's producers of export goods are able to sell them at high and fairly stable prices; the prices of Canadian made manufactured goods are now not a great deal, if any higher than the equivalent foreign goods; the import duty on farm machinery having been removed, the farmer is now able to purchase these goods at the lowest world price.

Canada's economic relations with the United States have often been marked by a good deal of internal dissension in Canada and a calm, bordering on indifference, in the United States. Since Confederation, probably the most important development in Canadian American commercial relations took place in 1910 and 1911. In the earlier year Laurier and Fielding commenced negotiations with President Taft on a reciprocity agreement, which was presented to Parliament for ratification in 1911. However the full power of the Conservative opposition, assisted by some Liberals, notably Sir Clifford Sifton, staged a filibuster which ended in the dissolution of that Parliament. Someone coined the phrase "no truck nor trade with the Yankees" and it was this attempted reciprocity, which some saw as a potential loss of sovereignty and severance of Empire ties, which was a major contributor to Laurier's defeat in 1911.

Since then the Canadian and American tariffs have fluctuated considerably, reaching their highest point in the early years of the depression. However with the passage of the American Reciprocal Trade Agreements Act in 1934 there has been a fairly steady decline in the extent of the tariff between the two countries. This Act authorizes the President to reduce existing United States tariffs in exchange for similar reductions in the tariff of the country with which he is negotiating. Negotiations along these lines between Canada and the United States have accomplished important reductions and further negotiations are contemplated.

In the realm of political-economic relations within the Empire, Canadian aspirations, first for customs-making autonomy and later for tariff protection, have had some important effects. Tariff autonomy, in effect won by Galt in 1859, though nominally bestowed by Britain thirteen years earlier, was the economic counterpart of the privilege of responsible government attained in 1849. The use of this tariff autonomy has played a secondary but important part in changing the status of the Dominions in the British Commonwealth. Dissatisfaction with British representation in commercial relations in foreign countries led to independent diplomatic representatives in foreign capitals for the Dominions. The alleged failure of the British Commissioners to obtain trading advantages for Canada at the Washington conference of 1871 was the beginning of this development. Canada's successful efforts to free itself from the restrictions of British-made commercial treaties, particularly after 1897, gave added weight to the voices of the Dominions at subsequent Imperial conferences. Finally the entire growth of protectionism in Canada, directed at Empire as well as foreign products, has made for relationship of arms-length political as well as economic bargaining between Canada and the United Kingdom. Sir John A. Macdonald, with his National Policy, was clearly at complete odds with the English laisser-faire, free trade Liberals during the second half of the Nineteenth Century and this led to profound differences between Canada and Great Britain. The whole system which Canada built up of commercial autonomy and protection served to establish the Canadian economy, not as a unit within the British Empire, but rather as an independent mechanism. To some extent Canadians returned to the Imperial fold through the Ottawa Agreements of 1932 but despite this Canadian commercial policy continued on pretty much the same course as it had followed for seventy-five years.

III

BUT this relatively simple policy was not to continue for long without many additions to it and modifications of it—the Second World War saw to that. Actually the problems which confront to-day's trading world have been in development since 1914 but it was not until the end of the Second World War that they emerged fully for all to see. Briefly, what are these new circumstances in which Canadians found themselves?

Canada emerged from the Second World War in a stronger economic position than it has ever had in the past. In the last decade Canada has about tripled its production in money terms, and doubled it in real terms. Canadian labour income has tripled; Canadian farm income has tripled; Canadian foreign trade has nearly quadrupled in value and doubled in volume. To Canadians the post-war period has, so far, been a period of particular prosperity. But Canadians know that this prosperity can continue only so long as they have ready markets abroad for their exports—that if their foreign markets collapse their prosperity is likely to collapse with them. Thus perhaps the major fear of Canadians in the post-war period is a loss of export markets which will endanger Canadian income and employment. Canadians remember well that our exports declined by two-thirds between 1928 and 1932.

The history of Canadian activity in the realm of external economic relations in the post-war period has been one of attempting to maintain the Canadian economy on as sound a basis as possible. The first major step which the Canadian government took at the end of the war was the extension of large credits to various European countries, most importantly to the United Kingdom. This measure not only assisted the rehabilitation of devastated countries but it also helped to establish an effective export demand for Canadian products.

It is possible that these loans contributed to the balance of payments problem in which Canada found herself in 1947. From the end of the war until 1947 the rate of Canadian imports from the United States had been constantly increasing. This was due to the high levels of Canadian employment and income and the high rate of investment which raised the demand for foreign goods as well as Canadian-made goods. But since the only country which could meet this Canadian demand for foreign goods was the United States, our imports from that country increased precipitously. At the same time Canadians were not able to obtain sufficient dollars or convertible currency to pay for these imports. The result was a dangerous reduction of our reserves of gold and United States dollars.

It became necessary for the government to rectify this situation. Accordingly in November, 1947, the government issued a four-point program: legislation of a temporary nature designed to effect a reduction in Canadian imports from the United States; reduction of tourist expenditures in the United States; imposition of special excise taxes on certain consumer durables whose imports were to be reduced, (the object being to reduce the Canadian demand for these products); negotiation of a Canadian loan with the American Export-Import Bank. All of these were fully implemented except the excise tax which was found not to have its desired effect and was rescinded some months later.

The Emergency Exchange Conservation Act, as the import control legislation became known, consists of three schedules of tariff items the imports of whose goods are restricted. These three schedules list the following types of goods; those whose imports are not permitted, such as luxury and semi-luxury consumer goods, mainly of types imported from the United States; those whose imports are permitted under quota only, essential consumer goods; those whose imports are permitted under permit only, as capital goods and production materials.

About the time the import control program was announced Canada became a signatory to the General Agreement on Tariffs and Trade (GATT). Under this agreement participating countries are bound by a series of commitments about how they will conduct their foreign trade policies. Accordingly, the Emergency Exchange Conservation Act was specifically designed to comply with the requirements of the GATT. Although Canada's primary objective under the import control program was to reduce imports from the United States, the same regulations applied to imports from all countries. Thus Canada was able to avoid any undue discrimination. For although discrimination is allowed by the GATT, it is only allowed under fairly rigid conditions. What discrimination did occur in the Canadian import controls was within the terms of the GATT.

In addition to the purely restrictive aspects of the import control program the government also assisted Canadian industry in increasing exports to all countries, but particularly to the United States. This was done mainly by directing Canadian investment, where possible, into those enterprises which would either earn dollars through exports or save dollars by making Canada less dependent upon imports. This aspect of the program contributed in considerable measure to the spectacular increase in Canadian exports to the United States in 1948 and 1949.

The import control program achieved its primary purpose of alleviating Canada's unbalance of payments with the United States. During 1948 Canadian official holdings of gold and United States dollars increased steadily and by the end of 1949 these reserves were higher than at any time during the control period. But this increase cannot be ascribed solely to the import control program —another factor has contributed to it.

This is, of course, the European Recovery Program. This program is so well known that it hardly requires description, but its effects upon Canada's balance of payments require brief reference. Under this program European countries receiving aid are permitted to spend some of their allocations in Canada, or other "offshore" countries, provided that the goods which they do so purchase are not declared to be in surplus supply in the United States. This means that the European countries not only receive the goods they require but Canada received convertible currency which it, in turn, is able to spend in the United States. This arrangement has been a major contributor to the maintenance of Canadian exports. It has also temporarily helped solve Canada's balance of payments problem.

Another factor which may well have important effects upon Canadian exports and imports is the almost world-wide devaluation of currencies relative to the United States dollar which took place in September, 1949. It is too early to state with any precision the effects of this readjustment of currencies but there is good reason to believe that it will increase Canadian exports to the United States and decrease our imports from that country. It may also supply a greater balance in our trade with the rest of the world.

IV

APART from the necessity of maintaining a satisfactory level of exports for domestic reasons, Canada's activities in its external economic relations have been conditioned by the unique distribution of its foreign trade. Through the years it has been necessary for Canadians to obtain sufficient convertible currency to pay for their trading deficit with the United States. Before the war such currency could be obtained and that was the use we made of multilateral trade.

Under multilateral trade no single country need have a balance with any other as long as each country has an approximate balance in its total trade. The fundamental reason why multilateral trade is not able to operate effectively at present is that the United States has a far smaller dependence upon the world's goods than has the world upon United States' goods. Thus the United States has a huge export surplus and this surplus, in turn, creates the present dollar shortage. Canadian dollars are also short nearly everywhere except in the United States, but unlike that country, Canada has no over-all permanent export surplus. Rather it has a surplus with particular countries.

Clearly it is in Canada's interest to have a return to multilateral trade. But if that is not possible then an attempt may be made to achieve balances on her various trading accounts. If Canada can achieve such balances then the inconvertibility of currencies will have no direct effect upon our economy.

It is reasonable to hope that a better balance can be supplied to Canadian—British trade by encouraging Canadian importers to switch some of their purchases from the United States to the United Kingdom. Import controls have encouraged the importation of British textiles, capital goods and other commodities. The main hope of achieving success in this readjustment of purchasing in the future is through increased machinery imports. There are many large and important projects proceeding at present in Canada, such as public utilities, which can be satisfactorily supplied with British equipment. It is too early to judge the effectiveness of diversions of this sort but in some respects, such as motor vehicles, Canadians have displayed considerable willingness to take British goods.

The long-run possibility of Canada achieving a bilateral balance in its trade with the United States looks fairly promising. If Canada can market a reasonable amount of crude oil in the United States and if it can commence exporting a fair volume of iron-ore to that country, then the problem will be well on the way to solution. But since heavy shipments of iron-ore to the lake states (where much of the American primary iron and steel industry is located) will be difficult without the St. Lawrence Seaway, it would be over-optimistic to think that a continuing trade balance on this basis is likely in the near future. Nevertheless these and similar factors point towards possibilities for a major change in Canada's trading position relative to the United States in the second halt of the Twentieth Century.

Perhaps the most serious aspect of Canada's present trade problem, apart from the possibility of a world depression some years hence, is the loss of overseas markets due to the dollar shortage. But the dollar problem is presently receiving a good deal of attention and it is quite possible that the measures which are being taken will lead to its solution. In any event Canadians recognize that they must increase their imports from those countries with which they have a surplus and that the more successful they are of doing so the more they will help to assure the sale of their exportable surpluses.