to meet U. S. industry needs may prove to be an expensive method of obtaining the exchange required to keep the present boom going in Canada. On the other hand, expansion of secondary manufacturing may lead to a better balanced economy and thus serve somewhat to insulate Canada from the shocks resulting from a possible falling off in U. S. industrial activity.

Alternative methods of meeting Canada's capital needs would also warrant careful investigation. The United Kingdom's exchange and production difficulties are such as to limit the availability of capital from this traditional source. International Bank loans may be a possibility. Moreover, even if the U.S. continues to be the major source of Canada's imported capital goods, financing through loan funds rather than ownership funds may prove practicable as well as less open to critiism.

Recently Canada's heavy participation in E. C. A. "off-shore" purchases has lessened somewhat her exchange difficulties. However, this improvement must be regarded as temporary only, allowing Canada a breathing spell in which to readjust her production and trade patterns. Even if substantial European recovery results and the former trade triangle is eventually restored, Canada's tremendous advances in industrialization will necessitate considerable trade readjustment. In the meantime, the discriminating exchange control weapon is available to direct further branch plant expansion into desired channels.

British Plants in Canada

By Hon. Arthur Welsh

TODAY there are approximately 350 branch plants in Canada which are sponsored by United Kingdom concerns, in comparison with a total of about 3,000 United States branch plants.

These figures indicate that the United Kingdom had "missed the boat" and that Canada in her own self interest should some years ago have done what we are doing now—that is, encourage the establishment of United Kingdom plants in Canada on a substantial scale.

In most cases of present economic maladjustment between two countries with a record of substantial mutual trade, the blame can usually be placed directly on the credit and exchange difficulties which built up in progressive fashion both from the first war and the late war. In this case, however, while it is certainly true to some extent, it does not appear to give the complete answer.

In fact, the evidence of the past fifty years clearly points out that a lack of understanding of each other's domestic economic status, and each other's basic position in world trade, was the real cause of the comparatively small number of United Kingdom branch plants which have been established in Canada.

Breaking down the problem to its lowest common denominators to discover the basic trends that have resulted in the present branch plant situation in Canada, we arrive at four individuals who bear the responsibility, namely:

1. The United States Manufacturer, who has established a branch plant in Canada.
2. The United Kingdom Manufacturer, who has established a branch plant in Canada.

EDITOR'S NOTE: Hon. Arthur Welsh, D.S.O., is Minister of Planning and Development for the Province of Ontario.

3. The United Kingdom Manufacturer, who has not established a branch plant in Canada.
4. The Canadian Consumer.

A study of the reaction of each ot this problem over the years should give a fairly full understanding of it, and establish the trends that have produced the present situation.

(1) U.S. Manufacturers With Canadian Branch Plants

Let us assume for example that here is a U. S. manufacturer of canned soups and vegetables.

From the outset he found that doing business in the Canadian market was just like doing business in another State, with the exception of the custom tariffs, and those he could usually overcome safely through low costs due to a larger production than his Canadian competitor. His procedure was identical with that in a (U.S.) State, in that he could operate through an agency firm, or set up his own branch sales office. The eating habits of his customers were the same, in fact, they were guided and controlled largely by his own advertising in the great United States periodicals and in the Canadian Press.

With the advent of commercial radio advertising his coverage was even greater in Canada then formerly, and year after year he enjoyed a brisk and increasing Canadian business.

However, as the years went by, he found that his Canadian competitors were increasing in size and efficiency, in fact, they were copying his methods closely, using the same machinery and even hiring United States specialists to work in their factories. The customs tariff was becoming more and more difficult to handle.

In 1933 with the advent of the Ottawa Imperial Preference tariff increases, he found it impossible to compete. However, he had developed a sufficiently large business in Canada by this time to justify a branch plant, and not only would that plant be able to serve the Canadian market profitably, but the Imperial Preferences enabled his Canadian plant to export to the entire British Empire at a considerable advantage, as against export from the United States plant.

For years he had been solicited to establish such a plant by various industrial development agencies in Canada, the Banks, the Railroads and many municipalities and as a result some preliminary investigations and conversations had been conducted, so it did not seem a drastic or difficult step to make the final decision and set up his Canadian branch plant. The general history of such United States branch plants has been one of continued growth and prosperity.

(2) U.K. Manufacturers With Canadian Branch Plants

These in general have been the very large British industrial concerns who early in the century, in line with world industrial development, have followed a policy of branch plant establishment throughout the world. It includes such well known companies as Lever Brothers, Dunlops, Vickers, Tennants, Courtaulds, G.S. and A. Robinson, and many others whose names are household words wherever English is spoken.

They have been particularly successful in Canada and their Canadian history is presenting at the present time a strong favourable argument for the consideration of their United Kingdom colleagues who have hitherto neglected the Canadian field.

(3) U.K. Manufacturers Without Canadian Branch Plants

A shoe manufacturer is a representative sample of a manufacturer of a more or less standard commodity for consumer use; it is also a line in which the United Kingdom has specialized and enjoyed a good world wide reputation.

In the early part of the century this manufacturer, no doubt, enjoyed considerable success in Canada. He would probably have agents in Toronto and Montreal, who would provide him with a steady and profitable business year after year. In a similar fashion, he would ship to Australia, South Africa, New Zealand, India, and many other parts of the Empire.

Shortly before and after the first war, his Canadian agents would inform him that his styles and prices were unsatisfactory, and urge him to meet the competition. Canadian business would fall off steadily. He would eventually make a trip to Canada and find that the Canadians were now manufacturing themselves, and were also importing from the United States shoes entirely different from his own and other standard British production. These shoes had lighter and more flexible soles, many had rubber heels attached, with a thinner and a drier type of upper leather, which would take a shine like a mirror, and that the shape of the shoes bore no relation to his traditional unchanging lasts. He would find also that many new types of machines emanating from the great United States Shoe Machinery Company of Massachusetts and the installation of many new types of machines in the tanneries also from the United States, were together producing shoes at a cost which he could hardly credit. He would find that the average Canadian had become very style conscious from the great advertising mediums of the United States and Canada, and would follow the changing styles of shoes with implicit obedience.

He would return to England and discuss this situation with his fellow directors, and with good common sense, it would be decided that it would disrupt the English factory completely to attempt to produce these novel styles. It would be argued that Canada was only a small percentage of their total business so that, much as they regretted to let their loyal Canadian agents down, it seemed quite impracticable to do otherwise than drop the Canadian market. The question of a Canadian branch plant would be raised and voted down because there were plenty of comfortable markets remaining where English types of shoes were the fashion and a branch plant 3,000 miles away was considered difficult to control from England.

Following the second war, probably at the occasion of the International Trade Fair 1948, one manufacturer, or perhaps his son by this time, would at the strong request of his Government make another exploratory trip to Canada in the interests of the great export drive for Canadian and United States dollars.

He would find exactly the same difference as regards prices, style, leathers and colors, and would note that the shoes worn in Windsor and manufactured in Canada were practically identical to the shoes worn across the river in Detroit, which were manufactured in the United States.

He would confirm the reports he had heard at home, that the average Canadian spent two or three times as much money on shoes as the average Englishman. He would be greatly impressed by the rich growing market of the Western World.

However, he would return to make the same decision. It would be again considered impracticable, in fact impossible, to serve the Canadian market with its United States styles from the United Kingdom plant, but this time the advisability of a Canadian branch plant would receive long and serious consideration. For now Australia, India, New Zealand, South Africa, etc., were manufacturing their own shoes and leather, and when the scarcities were filled these easy and traditional markets would be increasingly difficult. In addition, Canada offers more promise of security than any other country in the British Commonwealth.

(4) **The Canadian Consumer**

He and she presents a very difficult problem to the United Kingdom exporter, because of their definitely United States controlled tastes and habits.

As mentioned above in connection with shoes, but applying as well to practically everything, if a stranger were to cross from Windsor to Detroit or vice versa, and did not know he had crossed the United States-Canada border, he would not detect a single difference between the dress and appearance of the people, the buildings, the automobiles, the railroads, etc., etc.

On the other hand, if he took a plane from Montreal and arrived in London, he would feel at once that he had entered an entirely different world in all those things mentioned above, and in many other ordinary every day affairs.

To a Canadian, the reasons are obvious and are a matter of course. From childhood he has assiduously followed the advertisements in the great United States periodicals, listened daily to the great United States commercial radio programs; the United States manufactured movies with their great influence on the habits and tastes of the young particularly have been his weekly diet, and he has visited the United States regularly. He probably has many relatives there.

He does not need to buy imported United States articles because he is served their exact equivalents manufactured in Canada by over 3,000 branches of United States companies.

The average Canadian, however, has a loyalty to British goods which is part and parcel of his basic loyalty to the Mother Country, and he still readily accepts the fact that British quality in many lines is the highest in the world, such as in china, high grade woollens and many other textile products, precision machinery, liquors, fine leather goods, cutlery and many other items.

However, aside from these more or less special luxury lines, his tastes and habits have become firmly set in the United States mold, and if he is to be influenced to purchase a wider range of British goods they will have to be priced, styled and serviced to the United States and Canadian patterns.

To conclude and bring these subjects up to the present month, I think I could not do better than quote the accurate and pointed article which appeared in *Time Magazine* of October 11th:

> For weeks, Ontario's Department of Planning and Development has been busy signing up British manufacturers for Canada's industrial heartland. Last week, a paper company was about to okay plans for a $750,000 plant in Ontario. Altogether, ten firms, making everything from soup crackers to threaded nuts, have signed since July, when a new scheme of "assisted immigration" was started.
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> Many a British businessman thinks of Canada as a good place to make money. It is more secure, economically and militarily, than the Old Country. It holds out the prospect of easy access to North America's vast resources of raw materials. Most of all, it gives a chance to expand quickly and tap the rich, growing markets of the western world. In selling these ideas to British businessmen, no province has worked harder than Ontario.
>
> Soon after war's end, a round hundred British companies opened branches in Canada. Then, as Britain ran out of dollars, the stream of industrial immigration dried up. Supercharged Premier George Drew went into action, and for once, Queen's Park and Ottawa pulled together. Last July, in London, a way was found to finance the migration of British industry.
>
> Struggling to repay the balance of a $700 million loan made by Canada in 1942, the British Treasury had been grabbing Canadian dollars picked up from the sale of Canadian securities owned in Britain. After due thought Ottawa decided that Canada currently needed new industries more than it needed the last $300 million of the loan. So the British Treasury, under the July agreement, now uses the dollars to supply British businesses with the kind of money they need to set up shop in Canada.
>
> Best known of the latest industrial pioneers is Austin Motor Co., Ltd., which already has a big ($30 million estimated for 1948) expor

market for its little cars in the U. S. and Canada. Last week much of its assembly-line machinery was on the way to Hamilton, where the company will sink $4,000,000. At first the plant will assemble cars from parts made in England; later it will build 500 a week, and half the parts will be made in Canada.

Another big automaker now making a sea change is Leyland Motors, Ltd., which will put millions into a plant at Malton to build trucks and buses. Leyland will work alongside A. V. Roe & Co., Ltd., another immigrant enterprise, with contracts to make jet engines and build jet planes.

Some other immigrants:

Pye Ltd., maker of radios and television sets.

Peek, Frean & Co., Ltd., biscuit bakers.

Spratt's Patent Ltd., maker of foods and medicines for dogs.

Steel: The Key to Industrial Expansion

By Martin Hollinger

STEEL has become one of the world's scarcest commodities. The new importance of steel in the world economy is the result of unprecedented demands for industrial plant, equipment and consumer goods. Already in short supply on the North American continent, the heavy commitments for European aid together with rapidly growing military requirements have now made the steel shortage even more acute. Canada, heavily dependent as she is on United States supplies, has been compelled to reduce imports sharply. Thus, the question of the expansion of Canada's steel capacity has become one of prime importance.

Canada to-day is one of the leading industrial nations of the world. Compared with pre-war, industry has about doubled the volume of its production and is working at practical capacity. This year, gross national production is expected to exceed $15 billion. Pressed by the urgent needs of war, industries were expanded and new ones were created. After the war these gains were consolidated and for the most part have been integrated into the Canadian economy. On the other hand in Europe and Japan industry was destroyed and disorganized. Thus, Canada's importance as a modern industrial power has been established.

Now, a further period of intensive industrialization in Canada is in process. Each year investment in plant and equipment has exceeded its previous peak and surpasses by far the levels attained during the war. In 1948, total private and public investment is expected to reach the spectacular level of $3 billion, about 10% greater in volume than last year. Forced into industrial maturity in less than a decade, the tempo of Canada's industrial development has increased.

New industrial goals have been imposed on the Canadian economy because of our exchange problem and continued inflation. Production must be expanded to increase total domestic supply. Imports are being reduced to save United States dollars and exports increased to add to our dollar earnings. Much of the increase in production and accompanying expansion facilities will have to occur in steel using industries. Moreover, military requirements from Canadian production may also be expected to increase.

Although our steel capacity has been increased by about 60% since pre-war

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