Chapter II

INTERNATIONAL TRADE IN THE CANADIAN ECONOMY

Others chose to live by trade, and were much better off . . . .

William Langland, *Piers the Ploughman,* 1370

Canada is a trading nation. Much of our economic structure can be explained only in terms of our external trade. More than thirty percent of Canada's GNP is generated by our exports of goods and services. At the same time Canada imports a wide variety of both producer and consumer goods which either cannot be produced in Canada or which can be obtained more cheaply from abroad. Massive capital developments have taken place to serve foreign markets. Few countries are as visibly dependent on external trade for the development of their economy as is Canada. Canada does not possess a large internal market, nor does it have preferred access to a larger market through a regional trading bloc. As a first rank producer of commodities like nickel, wheat, and uranium, and as a manufacturing nation, highly skilled in the production of aircraft, automobiles and nuclear power plants, as a major force in world banking and consulting engineering, its prosperity depends on its ability to sell goods and services in many parts of the world, especially in the United States, Western Europe and Japan. Furthermore, Canadians have become dependent on imports of a wide range of both producer and consumer goods to satisfy basic demands at the best possible price. Trade is thus a key factor in the efficient development of the Canadian economy and the maintenance of a high standard of living for Canadians. This chapter will examine the growth of international trade in the past three decades, Canada's place in that trade, and the benefits to the Canadian economy from that trade. It will also provide a regional perspective to demonstrate the importance of trade to all parts of Canada.

The Setting: Evolution of Canadian Trade Policy

In the years immediately before 1867, the colonies that then joined together in Confederation had enjoyed free trade with the United States in primary products. This had been sought by the colonies to offset earlier losses of preference in the British market; it had been negotiated by Britain in 1854 in the belief that it would promote economic viability in these British territories. In 1866 the United States abrogated the Reciprocity Treaty, bringing fears that considerable adverse influence would be brought to bear on Canada's trade and on investment in Canada. Following Confederation, the new nation immediately set about seeking better terms of access to both the United States and British markets.

The results of these efforts were disappointing; consequently, in 1879, Canada adopted the high-tariff policy then in vogue in most trading countries other than Britain. From the outset, Canadian trade policy has thus tended to be conditioned by