YEAR END FOREIGN TRADE REVIEW

By

HON. JAMES A. MACKINNON

Minister of Trade and Commerce

The post-war channels of Canada's foreign trade, which were developing in 1946 as an aftermath of war, continued along the same direction during the past year. The strains on our economy and on our foreign trade were intensified, and reached a climax toward the end of the year when drastic emergency controls on import trade were reimposed. That restraint, unfortunate as it may seem at the moment, may be logically considered as part of the difficulties inherent in the post-war readjustment. The universal shortage of U.S. dollars is the inevitable result of the deficiency of production in the rest of the world. When rehabilitation in non-dollar countries is achieved, and their production is back to pre-war levels, it is hoped that this shortage will be relieved, and the normal flow of world trading may be resumed.

In the meantime, the restrictions which have necessarily been imposed on Canadian imports, in order to save U.S. dollars, should not be allowed to overshadow other achievements during 1947. The most hopeful development this year was the successful completion of the Geneva Conference on trade and employment, which drew up the charter and the trade agreements defining the guiding principles of international trade for the future. These agreements may well outweigh any other developments in the field of international trade during the year.

PRINCIPLES OF TRADE CHARTER

The Geneva Conference drew up the charter for the International Trade Organization of the United Nations for presentation and final ratification at the World Trade Conference meeting now in Havana. Until it is ratified there by nations making up between them 85% of the foreign trade of all negotiating countries, the I.T.O. will not be set up as a separate body. However a general agreement has been drawn up, incorporating many of the principles laid down in the charter, and will be put into effect provisionally on January 1, 1948, by Australia, Benelux (the Belgium, Netherlands and Luxembourg Customs Union), Canada, France, the United Kingdom and the United States. These countries will also put into effect the specific trade agreements which were negotiated following the general agreement. The concessions obtained in the separate tariff agreements will be extended to all members signing the general agreement. For example, the reduction obtained by Australia in the United States tariff on fresh beef and veal, extends automatically to Canada and all other signatories.

Canada obtained some major adjustments in tariffs and quota restrictions currently in effect in the United States and certain European countries, particularly for her agricultural goods, but also in a worthwhile measure for manufactured products. These concessions will have a favourable effect in expanding our exports in general and to the United States in particular.

FREEDOM FROM DISCRIMINATIONS

Inherent in the general agreement is the paramount principle of freeing international trade from restrictive and discriminatory regulations. Future trade agreements made by the signatory countries will be of a multilateral character and future tariff concessions are to be applied in equal measure to all participating nations. Quantitative restrictions (such as import quotas) are to be relinquished except in certain specified cases, notably when imposed by countries involved in balance of payments difficulties. It is this exception which permits Canada to adopt the current emergency measures to curtail expenditure on imports from hard-currency areas. Canada is one of the countries in which the general agreement and the specific trade treaties will go into effect on January 1, 1948.

The reason for the import restrictions temporarily imposed for balance of payments reasons arises from the pattern of our foreign trade over the past two years. During this time we extended loans to a number of European countries badly in need of Canadian food and all manner of durable goods and capital equipment, to help them in their reconstruction programme. At the same time we continued to supply large quantities of food and other goods on credit to the United Kingdom. These large export commitments to Europe, in addition to the volume of post-war demand in Canada for consumer durables, resulted in a high level of employment during the post-war period, with an equally high level of income. The result was a large volume of export trade with Europe, and a large volume of imports for which our chief source of supply was the United States.

TRADE PATTERN UNBALANCED

The direction of trade was similar to the pre-war period when we were accustomed to export more to Britain than we imported from her, and imported more from the United States than we exported to that country. Two major differences, however, intensified the unbalanced nature of this pattern of trade. First was the fact that the volume of imports from the United Kingdom had sharply declined, and secondly, only a proportion of the proceeds

from our sales to European countries were paid in currency freely convertible into U.S. dollars.

During the last year, half of the net trade balance with the United Kingdom has been paid in United States funds, and for a few weeks during the summer sterling was freely convertible. With these exceptions the drain on our American dollar exchange has been constant and had reduced our holdings from $1,250 million last January to $500 million at the middle of November. This rate of expenditure in the United States could not have continued without putting us heavily in debt to them, despite the fact that we are substantial creditors of the European nations. In brief, what we have been doing is selling the major part of our exports for credit, and buying the major part of our imports for cash - and we're running out of cash!

POSITIVE MEASURES ADOPTED

But the regulations recently imposed do not merely conserve foreign exchange by restrictive measures. There are positive measures designed to give the fullest possible support to fostering and developing Canadian industry to enable it to increase its exports to areas which are able to pay in dollars or currency convertible into dollars.

Curbs have been placed on the very sharp post-war increase in imports of durable consumer goods, and an excise tax has been placed on Canadian manufactures which are still heavily dependent upon the import of components from hard currency areas. At the same time imports of capital equipment have been put under permit control in order to eliminate all unnecessary expenditures, but allow all essential imports such as equipment to build up export industries in accordance with the government's long term policy. The full co-operation of businessmen and manufacturers will be needed in order to make the restrictions workable without imposing further strain on the economy. If manufacturers, particularly in branch plants, can replace a large part of their imported supplies from Canadian sources, it will save substantial amounts of foreign exchange to the advantage of the country as a whole.

STIMULUS TO EXPORTS

The import trade is only one side of the picture, and the outlook for adjustments on the export side is good. Since the end of the war Canada has been deliberately channeling her exports to Europe. Contracts for many staple commodities have kept the bulk of the export surplus off the world market, and strict embargoes on shipments have kept others from more lucrative markets. In proportion to her population Canada has played a part second to none in extending post-war aid as a practical step in the establishment of peace. The prospect of financing some part of our necessary exports to Europe under the Marshall plan is hopeful. The United States has done a very great deal to aid in the recovery of European countries, and the Marshall plan proposes a great deal more. Canada can still help others, and herself as well, by participating in this programme through the export of food and other commodities needed for the reconstruction of war-shattered economies abroad.

During the past year many of our post-war loans to European countries have been used up, and more supplies will be available for export to hard currency areas. Exports of some commodities to the United Kingdom are likely to diminish as Britain has had to adjust her imports to her current and immediately prospective exchange balances. The flow of Canadian goods from now on must be more evenly balanced between hard and soft currency countries in order that our international obligations may be kept within the limits of our capacities.

COOPERATION WITH PRIVATE BUSINESS

An example of how Government and private business have been co-operating to this end was the Canadian Trade Mission to South Africa, when a party of Government officials and prominent Canadian industrialists joined forces to pay a three week visit to the Union of South Africa, Canada's third best customer. The Mission visited eleven countries in Africa and the Mediterranean during the course of the tour and accomplished much in developing future favourable trade relations in those areas. There were also concrete results, as exemplified by very substantial orders for Canadian equipment and supplies.

Another related development will be the first Canadian International Trade Fair, to be held under Government sponsorship in Toronto from May 31 to June 12, 1948. Almost half the exhibitors will be from countries other than Canada, and individual invitations have been extended to 120,000 buyers and buying organizations throughout the world. It is confidently expected that this further example of co-operation between Government and private business will result in substantial benefits to Canadian industry and the wider distribution of our foreign trade.

This year has been a momentous one in Canadian trade. The decisions taken will lead to changes, which we hope will work toward a better balance in Canada's trade with foreign countries. In the international field the decisions have been equally important, and we expect they will provide the basis for re-establishment of freer and fuller trading among countries to the mutual advantage of all.

FISH LANDINGS LOWER: Landings of fish and shellfish in the sea fisheires of Canada during November amounted to 90,900,000 pounds, a decrease of almost 14 per cent from November last year, according to the Dominion Bureau of Statistics. During the eleven months ending November, landings aggregated 1,038,600,000 pounds a decrease of eight per cent from 1946.