Bilateral Economic Relations

Canada's most important trading and financial partner remains the United States. In 1971, the United States imported $12-billion worth of goods from Canada (over one-quarter of total U.S. imports, nearly 70 per cent of Canadian exports) and exported $10.9 billion to Canada (nearly one-quarter of total U.S. exports, 70 per cent of Canadian imports). Both these figures represent an increase of 10.4 per cent over 1970. More than 85 per cent of Canada's manufactured, and thus labour-intensive, exports were sold in the United States. Canadians have more than $3 billion of direct investment in the United States, while American investment in Canada, at the end of 1970, amounted to a book value of $21 billion. The return on investment to the United States in the form of dividends and interest payments amounts to some $1.2 billion annually.

The U.S. August 15 measures provoked a major re-examination of Canada's commercial relations with the United States as a whole -- relations which are so fundamental to the Canadian economy that any definitive long-run conclusions are difficult to determine with accuracy. In the short run, however, a series of trade discussions and negotiations between Canadian and United States officials and ministers were conducted in November and December 1971 on a number of issues, including the 1965 Automotive Products Agreement, tourist allowances and defence-production sharing. The visit of the Prime Minister to the United States President on December 6 provided an occasion for the two leaders to deal directly with some of the most fundamental issues.

Canadians generally accepted the need for determined action by the United States and others to correct the serious and growing disequilibrium in its balance of payments, an imbalance that threatened the whole international monetary and trading system. Canada also shares many of the basic objectives of the United States with respect to future world commercial and financial patterns.

Bilaterally, however, Canada did not contribute to the United States payments problem. On the contrary, even if Canada has enjoyed a surplus on the merchandise-trade account since 1968, its current account with the United States, which includes invisibles as well as merchandise, has been in a deficit position since 1946. Moreover, the value of the Canadian dollar has appreciated by over 7 per cent since it was floated in May 1970, a substantial comparative advantage provided to United States exporters.

At the end of 1971, while the basic elements of Canada's strong, close and friendly economic relations with the U.S. remained very much intact, it was clear that there were certain differences of view between the two countries with respect to a number of bilateral economic matters.

Britain continues by a considerable margin as Canada's second most-important trading partner, although the gap between Britain and Japan (the third most-important single country in Canadian trade) continues to narrow. Exports to Britain have levelled off in 1971 after the spectacular 33 1/3 percent jump they took in 1970. The percentage of Canadian exports going to Britain has remained more or less steady since 1970 (i.e., between 7 and 9 per cent), but it should be recognized that, although this represents a relatively small share of total Canadian exports, Britain does provide a major market for a number of important