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Investments Maintain Adverse Balance

Flow of Capital Into Canada From The United States Must be Accompanied by Imports—Exchange Rates Not Only Factor in Controlling Trade—Enormous Balance Against Canada Almost Entirely Offset by Investments—Must Ultimately be Repaid by Exports,

By "STATISTICIAN."

THE influence of the rapidly increasing investments of American capital in Canada in swelling imports from the United States is almost entirely overlooked in the voluminous discussion on the balance of trade and the rate of exchange between the two countries. On every hand the advice is "Cut down imports from the United States"; but those who recommend this as a general specific seem to forget that the financial relations that have been established between the two countries are powerfully stimulating imports from the south. The strong inflow of American capital is rightly viewed with satisfaction; but the accompaniment of this is high imports, since a portion of this new capital must enter in the form of commodities. This explains the puzzling situation presented by continued high imports from the United States in spite of the fact that the demand for much that was imported during the war has fallen off.

Imports Must Accompany Investments

It is quite believable that many things are being imported from the United States which Canadians could very well do without, and it is in the public interest that these importations should be reduced as much as possible. But with the growing dependence of Canada on the republic for fresh capital, which, just now, is this country's life blood, and which if denied her would retard her development,—it now seems to be quite out of the question to expect for a while imports to undergo a marked reduction. For while, on the one hand, there is a slackening in the demand for some products, there is, on the other hand, a growing demand for American capital. Of course not all of this enters in the form of products, but a portion of it must.

The huge trade balances that the United States has been piling up against this country have been one of the most striking features of the Canadian trade situation during the last decade. It is true that with overseas commerce very much interrupted during the war period Canada was compelled to buy from the United States many things that she had formerly drawn from across the seas. It is also true that the imperative necessity of drawing from the republic huge quantities of raw materials to be used in the manufacture of munitions did much to increase greatly imports therefrom. But it is also to be observed that, since 1913, when these imports began to increase rapidly, the total investment of American capital has, according to the best estimates, been increased by over 250 per cent., going from $600,000,000 to $1,600,000,000.

Investments Nearly Equal Trade Balance

In this connection it will be of interest to note that covering the period of the last five fiscal years, the aggregate of United States' trade balances against Canada is $1,257,464,903; and that during this time the investments of American capital in this country have been increased by approximately $1,000,000,000. It is not contended that the new investments during the period mentioned account for four-fifths of the foregoing aggregate trade balances against this country; but the conclusion is that the whole of this total has not been due entirely to the mere increased demand for commodities resulting from greater prosperity and expressing itself in increased purchasing power.

One of the most surprising features of the trade of the two countries since the signing of the armistice has been the extent to which imports from the United States have held their own. It is true that during the fiscal year 1919 they declined $45,000,000; but when it is recalled that the value of articles for the army and navy alone dropped to the extent of $82,000,000 within the year, the wonder is that the decline in the aggregate imports was so slight.

Coming to the present fiscal year it is found that during the first eight months imports from the United States decreased by $23,361,105; but on importations for the army and navy, as compared with those for the same period of the preceding year, there was a falling off of no less than $37,000,000. So that during the last twenty months the decline in the value of American imports from the highest point in the history of trade between the two countries has been equal to no more than two-thirds of that represented alone by the falling off of importations for the army and navy. How is it that with greatly reduced imports of supplies of a military and naval nature and of other supplies required for the manufacture of munitions, imports have been so buoyant? Higher prices do not supply the explanation. The undoubted truth is that the high level has been maintained through the strength imparted by the rapid inflow of capital from the United States.

Not Reduced by Exchange Rates

The movement may be tested in another way, and that by the effect of the adverse rate of exchange on imports from the United States. For seven or eight months this factor has been strongly manifesting itself, and, under ordinary conditions, should have materially checked the importation of goods from the south. Has it done so? The trade returns do not show it; for, as has already been pointed out, the decline in the value of imports during the eight months ending November 30th was not equal to more than two-thirds of the decline in the value of imports of articles for the army and navy. Save in this one line, Canada is undoubtedly importing more to-day from the United States than she did during the height of the war period, when raw and semi-manufactured materials were pouring in to be, in turn, worked up into war materials. Upon this tide of imports the adverse rate of exchange has, apparently, had no appreciable effect. Undoubtedly the combined influences of a reduced demand for materials required in the production of munitions and the adverse rate of exchange would have reduced imports very considerably, had it not been for the stronger contrary influence set in operation by the rising