Canada's Trade Pattern

The pattern of world trade in the years preceding World War I was probably of greater significance than the natural resources of the country in determining the degree to which different Canadian industries developed and the extent to which Canada became dependent on world trade for its livelihood. At this time there was a well recognized pattern of world trade, and it was one that Canada could use to its advantage. There was a preponderant flow of goods from all parts of the world to Europe and a preponderant outflow of capital and services from Europe to the rest of the world. The centre of gravity of Europe in trade matters was the United Kingdom, Canada, as it came to maturity, oriented itself to Europe, and particularly to the United Kingdom, and benefitted greatly by the arrangement.

In the first place, the United Kingdom could provide the capital needed to develop Canada's economy and, in the second place, it was a ready market for the disposal of Canada's growing volume of exports of basic materials. It also provided a good source of imports, but Canada depended on the United States as the principal supplier of goods which it did not produce. After World War I the United States also became a principal source of capital for the development of Canadian industry. Both in terms of imports and exports, Canada's trade reflects this dominating triangular pattern. The United Kingdom and the United States each take about one-third of Canada's exports. The United States is the largest source of Canada's imports, with about two-thirds of the total. The United Kingdom is second with about half of the remaining third.

Out of this triangular pattern of trade developed a characteristic disequilibrium in the balance of international payment of Canada with both the sterling area and the United States. Canada had large credit balances with the sterling area (from an excess of exports over imports) and large current account deficits with the United States (from an excess of imports over exports and large payments of income on United States investments in Canada). This situation is well illustrated by the following table:

Canada's Balance of Payments
(in millions of dollars)

| Year | U.K. | U.S.A. | Other Countries | Net Balance |
|---|---|---|---|---|
| 1926 | + 58 | - 231 | + 300 | + 127 |
| 1930 | - 106 | - 334 | + 113 | - 337 |
| 1938 | + 127 | - 149 | + 122 | + 100 |
| 1943 | +1149 | - 19 | + 76 | +1206 |
| 1947 | + 632 | -1138 | + 421 | + 85 |

Importance of Trade to Canada

Up to 1914, Canadian trade had grown steadily through the export of staples and the import of capital equipment and manufactured consumers goods. During World War I, the growth of trade was accelerated, while wartime demand provided a stimulus to industrialization. This industrialization proceeded apace in the inter-war period. One of the principal causes of this was the establishment of branch plants of foreign companies, particularly those of the United States. The increase in production resulting from this inflow of foreign capital was reflected in a steady growth of exports up to 1930. During the 1930's trade fell off greatly in terms of value because of the precipitous decline in prices and in terms of volume because of poor business conditions throughout the world. World War II once again placed emphasis on the desirability of expanding Canadian manufacturing activity.