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CANADA'S EXTERNAL TRADE

HISTORY

Canada is naturally and by tradition an exporting country. From early times it has sent forth its resources and produce to other parts of the world.

When Champlain embarked in 1603 on a voyage of discovery he hoped to reach China by a new route and bring back precious stones, silks and spices. Instead he landed on the shores of an unknown country, Canada--a country that was rich not in silks and spices, but which was presently to supply Europe with furs and timber.

The Hudson's Bay Company was founded in 1670, and from then on furs from the Canadian north and west were sold on the London market. Similarly timber was obtained in the forests along the eastern seaboard.

Two hundred years later, when Canada first assumed a national existence, a remarkably large export trade had already been established, despite a small population. It is astonishing to find a community of three and a half million people selling no less than \$17,905,808 worth of goods in 1868, the year after Confederation. In 1943 it is equally astonishing to find their descendants, now numbering eleven and a half million, selling goods abroad to the value of \$3,000,000,000. Furthermore, more than 700,000 able-bodied producers were absent in the armed forces. Rarely have so few people produced so much.

It has always been necessary for Canada to produce and sell abroad as much as possible. A young and growing country depends on imports of both merchandise and capital, which must be offset by an outward flow of trade. In the early years of Canada's development imports were chiefly manufactured products, and exports consisted of raw materials and semi-manufactured goods. Since the opening of the 20th century this trend has almost been reversed: A large proportion of the imports have been of raw and semi-manufactured products to be used by Canada's own industry, while the exports have been predominantly of products which have already undergone some process of manufacture; in fact, Canada's leading manufactures now consist of its own raw materials which have been processed to a certain extent, if not to the finished stage. Furthermore, Canadian industries, serving domestic and foreign markets, are also using imported raw materials such as cotton and sugar. The stage attained in the industrial development of a country is indicated by the character of the goods it imports and exports.

During the period of 50 years from 1889 to 1939, the changes in Canada's exports have been very great, both in volume and in the relative importance of commodities. In 1890 the great agricultural expansion of the Canadian west had scarcely begun. The principal exports then were sawmill and timber products, cheese, fish, cattle, barley, coal and furs which indicated the dependence of production at that time on the eastern forests, mixed farming areas and fisheries.

Of the six leading exports in 1939--newsprint, wheat, nickel, timber, copper, meats--five were unimportant in 1890. In the year 1910 wheat appears for the first time as the leading export, although shipments were already heavy by 1906. The rise of the great pulp and paper industry to an outstanding position

has been still more recent, and the same applies to non-ferrous metals, automobiles and rubber tires. Much of the new agricultural area developed since 1890 has been better adapted to grain-growing than to mixed farming, with the result that as the population has increased the production of the older mixed-farming districts has been to a large extent consumed within the country. The rising importance during the last two decades of the mining and metallurgical industries is illustrated in the increased importance since 1910 of exports of copper, nickel, zinc, lead, aluminum and platinum. Furthermore, expansion in gold mining has kept pace with other metals, so that exports of non-ferrous metals in 1943 constituted the fourth largest group in Canada's export trade.

Exports have been necessary to offset the country's imports of capital and goods, but until the outbreak of World War I they were sufficient to pay only part of the bill for Canada's development. From 1868 to 1893, imports into Canada exceeded exports in every year except 1880 and 1881. For the next 10 years, there were more imports than exports, but during the period of great expansion from 1904 to 1914 imports always exceeded exports. This was the period during which foreign capital was being brought into the country on a considerable scale to build up productive equipment. Since that time there has been an annual excess of exports, except in the years of 1920, 1929, 1930 and 1931.

THREE-WAY TRADE

The imports needed to keep Canada's population going, and the capital to set Canada on its feet industrially came from two sources--the United Kingdom and the United States. These two friendly nations watched their investments and drew off the results in the form of such merchandise as they could use. Thus the Canada of today was established by means of a steady three-way trade, which ran in favor of either the United Kingdom or the United States according to their current requirements.

Ever since Confederation in 1867 the records of Canadian trade have emphasized the importance of these trade relationships with these two countries. In the early years of the Dominion, when the United Kingdom was lending capital freely, it supplied more than half of Canadian imports, even though as purchaser of Canadian goods it ranked second. Sometimes it provided the best market for Canadian exports, and sometimes the United States did. Since 1932 it has been the United Kingdom, with the exception of 1939, 1942 and 1943. In 1942 the United States became Canada's best customer--wartime demands in the United States for foodstuffs, wood products, military vehicles and munitions accounted for an increase in 1942 of nearly 13% over 1941. Together the two countries took 80% of Canada's exports in 1940.

To appreciate fully the value to Canada of this three-way trade, one must turn to another page in the ledger and examine Canadian trade with other foreign countries and with the rest of the British Commonwealth and Empire. Canada's exports to other foreign countries have been, and still are, limited. In 1886 they amounted to only 4.2% of the total value. In the boom year of 1928 they amounted to 23%, but soon declined again. In 1940 they were only 6.8%. In 1942 wartime exports to Egypt, Iraq and Russia, three allies, caused the percentage to rise to 13.7%.

Nor has the trade with the rest of the Commonwealth and Empire ever assumed large proportions. Exports have generally exceeded imports, and the percentage of both has increased steadily since 1886. As Canada's industrial organization has progressed, Canada has drawn more raw materials from other Commonwealth and Empire countries. They in their turn have provided an expanding market for Canadian manufactured and specialized products.

The following table sets out the position:

Canadian Trade (excluding gold) with Other Countries
Exclusive of the United States and United Kingdom

Year ending March 31	IMPORTS		EXPORTS	
	% of Total		% of Total	
	British Empire (other than U.K.)	Foreign Countries (other than U.S.)	British Empire (other than U.K.)	Foreign Countries (other than U.S.)
1886	2.5	12.2	4.2	4.5
1891	2.1	13.5	4.4	4.2
1896	2.2	15.8	3.7	4.7
1901	2.2	13.4	4.5	4.9
1906	5.1	10.9	4.6	5.7
1911	4.4	10.5	6.1	7.7
1916	5.5	6.3	4.2	7.8
1921	4.2	9.5	7.6	20.5
Year ending December 31				
1926	5.0	12.4	7.6	19.7
1931	6.8	13.1	8.4	21.7
1936	10.4	12.1	9.0	13.3
1939	10.0	8.7	11.1	12.3
1940	9.8	6.5	12.5	6.8
1941	9.7	5.8	13.6	8.8
1942	6.9	4.0	17.4	13.7

TARIFFS

As was to be expected in a growing country depending on exports to pay its way, the Canadian people have always been aware of both the need and the danger of a protective policy. The immediate effect of Confederation was to abolish the tariff barriers that previously existed between the provinces. The increase in the area of Canada thus extended the area of internal free trade. At the same time it was decided to continue the policy of protection against outside competition, although the tariff actually was lowered from 20% to 15%. Later on, the world-wide depression that commenced in 1873, and the consequent falling off in a revenue based on trade, necessitated increasing the tariff again. The duties were raised to 17 $\frac{1}{2}$ % on most imported goods, with a 20% rate on certain luxuries. Even this increase failed to fill the treasury. In 1879, after the people had declared themselves in favor of a protective policy in the general election of 1878, duties on imported manufactured goods were considerably increased. For example manufactured iron and steel products and machinery were given 25% to 35% protection.

In 1897 Canada enacted a preferential tariff on goods emanating from the United Kingdom and reciprocating British dominions and colonies. Canada was the first to take the step, and it had the effect of stimulating Canadian trade. This preference has been extended from time to time to other parts of the Commonwealth and Empire, until it is now applicable to virtually every British possession.

Canada also grants most-favored-nation treatment in nearly all its tariff arrangements with foreign countries. By this arrangement each country accords to the goods of the other the benefit of the lowest duties applied to similar goods of any other foreign origin. Canada, however, reserves from these special treaties with foreign countries the schedule which it accords to the United Kingdom and to other British countries.

WORLD WAR I

Canada's period of great expansion, 1904 to 1914, had already terminated at the outbreak of World War I. The country's economy was in the throes of readjustment and depression, and the time had arrived to utilize the productive facilities built up and financed by foreign borrowing.

Canada needed a surplus of merchandise exports over imports that would be sufficient to meet external interest and dividend payments on borrowed capital. This change from capital expansion to production of export staples implied a transfer of labour, with employment in construction replaced by employment in production. Pending the transition there were considerable dislocations in Canada, which were intensified by the outbreak of war.

Canada entered on an era of war prosperity. Its productive resources were primarily employed to supply exports of wheat, flour and other foodstuffs, explosives, shells and other munitions, and to build ships to transport them. During the war period its main exports more than doubled in volume and increased more than four times in value.

Canada's military record in World War I is well known, but on the production front the story was less glorious. Whereas war expenditures at the present time are running close to 50% of national income, war expenditures both at home and abroad reached only 10% of national income in the last year of the war. Even when British expenditures in Canada through the Imperial Munitions Board are added in, war outlays in Canada never reached 20% of national income. While reliable figures of total production are not available, it would appear that it did not increase more than 10% during the war period. In this war industrial production has already increased by 160%.

Manufacturing acquired a new and important position during World War I. Before that probably less than 7% of the total net value of all manufactured goods produced in Canada was sold abroad, whereas during the 1914-18 period the percentage exceeded 40%. The significance of this change was all the greater because exports from 1916-18 did not appreciably reduce the volume of manufactured commodities available for domestic consumption. The chief increases in manufacturing were iron and steel, pulp and paper and shipbuilding.

Canada emerged from World War I with a more closely integrated and more matured economy, international experience, proven strength of its own resources and potentialities, and a long-established unfavorable merchandise trade balance converted to a favorable excess of exports over imports. Canada's role in World War I was a worthy predecessor, and perhaps an ominous indication of the still more powerful role it would be able to assume in the present conflict.

BETWEEN TWO WARS

World War I was followed by a boom during which Canadian exports and imports both expanded in value. Imports showed a marked advance as a result of the inflated purchasing power of the population. Imports at \$1,240,100,000 for the fiscal year ended March 31, 1921, had the highest value in the country's history to that time.

After this brief boom the external trade of Canada, in common with that of every other country in the world, suffered a severe decline in both volume and value. Canada's total foreign trade reached the high point of \$2,450,600,000 in the fiscal year ending March 31, 1921, largely because of the continuation of excessive imports which tipped the balance \$29,700,000 on the deficit side. Consequently when the total trade figure fell to \$1,501,700,000 in the following year the effect was very marked, although actually a favorable balance of \$6,100,000 is recorded for the fiscal year 1922. From then on the value of Canadian trade gradually recovered and headed into a decade of prosperity. From 1925 to 1929 Canadian exports were predominantly agricultural. In that period it was largely because bountiful

harvests coincided with an active world demand at good prices that prosperity was so widespread.

Canada was making remarkable progress during this period in the expansion of its export trade to the world's markets. In 1913 the value of the total imports into 37 leading countries of the world had amounted to \$18,199,509,000. By 1929, the peak year of the prosperous period, these imports had increased to \$28,546,670,000, a gain of \$10,347,161,000. During this same period Canada's share of this trade increased from \$356,762,000 to \$1,103,375,000, by \$746,613,000. In other words, the increase in the total trade of the 37 countries was about 57%, but Canada's share of it rose by 209%. In 1913 Canada was responsible for 2% of their imports, but in 1927 its share was 4% or just double.

For the fiscal year 1929 Canada's total trade reached \$2,654,575,000, the largest for any 12 month period up to that time. The largest previous annual record was for the 12 months ended December 31, 1917, when the total trade was valued at \$2,639,726,000. Total imports for the fiscal year 1929 (\$1,265,679,000) exceeded imports for any previous fiscal year. Exports for 1929 (\$1,388,896,000) were larger than for any previous fiscal year except 1918 (\$1,586,170,000). Allowing for price changes, the physical volume of Canada's imports and exports was greater for the fiscal year 1929 than for any previous year. This was the highest point reached during the period of prosperity.

By the next year the depression had begun to set in and was apparent in Canada largely as a result of reduced exports of grains. Canada's total foreign trade during the year ended March 31, 1930, showed a decrease compared with 1929 of 9.8%, but compared with 1928 an increase of 1.4%. Imports were still flowing in freely, as was the case in 1920. They declined only 1.4% although exports fell by 17.6%. During the next two years the depression was being experienced.

This world-wide depression, which had commenced in the autumn of 1929, was responsible for a very great reduction in values, but less in the volume of international trade. The total value of Canada's external trade fell steadily from \$2,655,000,000 in the fiscal year ended March 31, 1929, to the low point of \$887,000,000 in 1933. The fiscal year 1934 saw the turn of the tide, however, with a total trade of \$1,019,000,000, further increased to \$1,173,000,000 in the corresponding calendar year. Canada's total trade during the fiscal year 1934 increased 14.9% over 1933, but still showed a decrease of 12.6% compared with 1932. There was a further increase in 1935 over 1934 in both imports and exports--the former increased in value by 20.4% and the latter by 13.9%.

The decline in Canada's trade was not so marked as that of the United States and certain other competing British and foreign countries. Canadian imports for 1930, compared with 1929, declined 22.4% as against 27.7% for the United States, while its domestic exports declined 25.1% compared with a decline in United States exports of 26.7%. The trade of both Canada and the United States suffered more from the general trade depression of the world than did the trade of the chief commercial countries of Europe, with the exception of Hungary and Spain.

WORLD WAR II

The present war has altered the entire course of world trade, and Canada, being a leading trading nation, has been seriously affected. Hon. C. D. Howe, minister of munitions and supply and of reconstruction has thus described the industrial changes in Canada and the adjustments of the war years:

"The first year of war, 1940, was one of planning and small beginnings, with the first bristle of war supplies from a few sources only in evidence towards the end of that year. The next year, 1941, was one of construction, conversion and expansion--of vastly broadened plans and quickened output. Then

followed a year of steadily rising production, of objectives reached and passed in the face of perils, problems and confusion. The year 1943 recorded an output so heavy that industrial capacity and manpower were strained to the limit, employment reached an all-time high even though, under the altered tide of war, shifts and changes had to be made in the production flood."

These changes are reflected in the trade returns. In 1943 Canada's total foreign trade almost reached the unprecedented figure of \$5,000,000,000. This brought it to the rank of the third largest trading nation in the world, although its population is only half of 1% of the world's total. In the year immediately preceding the present war, Canada had ranked second in the value of its exports per capita, with New Zealand first.

In 1943, Canada's export trade amounted to \$3,001,352,279. This was more than double the figure for any other year in its history, two and one half times greater than any year in World War I and three times greater than in 1939. The curve is still rising, trade for 1944 already has made an impressive showing. For the first nine months of 1944 exports (excluding gold) stood at \$2,577,026,702 as against \$2,137,101,880 for the same period in 1943.

Canada has always depended vitally on its export trade, for it normally derives one-third of its national income from it. In 1943 Canada's national income was estimated at \$8,724,000,000, of which its external trade made up \$3,000,000,000 or more than 34%. No other major trading nation depends so much on exports for its prosperity as does Canada. In the three years before the war the United States exported less than 7% of its total production, and the United Kingdom only 20% of its.

In order to promote Canada's vital exports in every way, an External Trade Advisory Committee was set up in May, 1944, to co-ordinate the activities of various government departments on matters affecting trade. This committee deals with wartime problems, such as the availability of supplies which may be made into products for export. It is composed of representatives of the Departments of Trade and Commerce, External Affairs, Foreign Exchange Control Board, Agriculture, Finance, Labour, National Revenue, Munitions and Supplies, Mutual Aid Board, as well as the Wartime Prices and Trade Board.

Possibly four-fifths of Canada's present foreign trade is of a wholly wartime character. Actually in the year 1943, 75% of all exports were declared as war materials. Prior to 1914 a large proportion of Canada's exports was raw or only semi-manufactured goods. Today, as was the case in World War I, the bulk again is fully finished war materials and foodstuffs. Their destination is significant:

United States	39%
United Kingdom	34%
British Commonwealth	13%
Other Countries	14%

Thus to an extent never before experienced, Canada has found markets overseas for the products of its agriculture, its industry in all branches, its mines, forests and fisheries. It is manufacturing goods and equipment never attempted before. This has meant a tremendous increase in productive capacity. The achievement of its manufacturing industries in turning out the huge quantities of equipment and supplies needed for war purposes, in addition to supplying the greatly expanded demands of the civilian population, is best illustrated by a comparison of their 1943 operations with those for 1939. It is thus seen that the number of employees increased by 92%, while the gross value of production was 140% higher. It is also estimated that the physical volume of production has nearly doubled.

MUTUAL AID

"Canada has received no lend-lease aid from the United States. She has paid cash for the supplies obtained in this country." This comment on the independence of the Canadian war effort was made by President Roosevelt of the United States on Armistice Day, 1943. "It may also be noted," he went on, "that Canada has already made a billion dollars worth of aid available without payment to the United Kingdom and is now engaged in making available another billion dollars worth of aid to the United Kingdom, Russia, China and the other United Nations on a mutual aid program similar to our lend-lease program."

Since the beginning of the war Canada has been extending considerable assistance to its allies. In the first three years the flow of Canadian war supplies to the United Nations was assured by providing the United Kingdom with the Canadian dollars necessary to pay for these supplies. Countries in the British Commonwealth and also the Soviet Union have, through the United Kingdom, received substantial amounts of Canadian war supplies in this way.

Several methods of extending financial aid were used. The most important were:

The buying back or "repatriation" of British-held Canadian securities, amounting to about \$300,000,000, and the consolidation of the major part of accumulated sterling balances in London amounting to \$700,000,000, into an interest-free loan for the duration of the war.

A contribution of \$1,000,000,000 placed to the credit of the United Kingdom for the purchase of Canadian war supplies.

The assumption of the ownership of United Kingdom interests in Canadian war plants amounting to about \$200,000,000.

Instead of acting through the United Kingdom, Canada wished to negotiate directly with each country receiving its supplies. Thus the Mutual Aid Act was passed in May, 1943. Its preamble states in part:

"It is essential to the defence and security of Canada and to the cause of world freedom that Canada should make the utmost contribution to the victory of the United Nations.

"It is necessary that the products of Canadian war industry be made available not only for use by Canadian forces, but also to other United Nations, in accordance with strategic needs, in such manner as to contribute most effectively to the winning of the war.

"It is expedient that the conditions upon which Canadian war supplies are made available to other United Nations should not be such as to burden post-war commerce, or lead to the imposition of trade restrictions, or otherwise prejudice a just and enduring peace."

These were the principles on which the Mutual Aid Act was founded. It provided for the distribution of Canadian war supplies, including not only war equipment but raw materials and foodstuffs, to the United Nations to the value of \$1,000,000,000 on the basis of strategic need and in excess of what could be paid for.

Mutual aid agreements now have been signed setting forth the general terms and conditions under which effect is being given to Canada's policy. They cover the supplies which have been shipped to the countries concerned during the months before the agreements were signed and also the supplies that will be provided in the future. Agreements were signed with the United Kingdom and the Soviet Union on February 11, 1944, with Australia on March 9, and with China on March 22. Others are being negotiated.

The preamble of the agreements sets forth their purposes in language similar to that used in the preamble of the Mutual Aid Act.

In the words of Prime Minister King in the House of Commons on March 16, 1944:

The policies reflected in the "farseeing philosophy" of the Mutual Aid Act

"will make it possible for mutual aid to prove its post-war value in enabling trade to thrive without the barriers which huge war debts would have imposed. It has been our purpose in instituting the mutual aid procedure to leave at the end of the war no indeterminate obligations arising from the provision of war supplies by Canada which would have to be settled by subsequent negotiations."

The underlying principles of mutual aid and United States lend-lease are the same: That no financial impediment should prevent allies from giving the maximum assistance to one another and that United Nations war resources should be used in the most effective way possible.

While the Lend-Lease Act was adopted when the United States was neutral, the Mutual Aid Act was passed when Canada had been at war for more than 3½ years and had already extended financial aid in excess of \$2,700,000,000 to the United Kingdom and its allies.

Total Mutual Aid expenditures up to March 31, 1944, under various headings were as follows:-

The United Kingdom.....	\$723,755,786.96
The Union of Soviet Socialist Republics.....	23,282,292.53
Australia.....	20,959,845.42
China.....	4,101,587.96
West Indies.....	374,473.82
India.....	432,192.66
Total.....	\$773,454,184.35

Expenditures for war supplies held by the Mutual Aid Board in transit or in storage, to be transferred to recipient countries in future.....	\$139,123,563.85
Expenditures for administration.....	25,472.14

Total Expenditures.....\$912,603,220.34

The appropriation for the fiscal year ending March 31, 1945, is \$800,000,000, which includes Canada's contribution to the United Nations Relief and Rehabilitation Administration.

EXPORT CONTROL

The war has altered the structure of world trade because of the difficulty of exchange transactions between many countries. German trade is now confined to Europe, and Japan is cut off from the United Nations; trade with neutral countries has been reduced by blockade and counter-blockade. On the allied side, external trade has been freely converted into fields which will best support the war effort. To ensure that it is oriented in the right direction, controls have been set up by the various governments.

The main purpose of these export controls during wartime is:

- (1) To prevent exports falling into enemy hands;
- (2) To conserve critical or strategic materials and supplies;

(3) To aid in distributing available materials in the way most advantageous to the war effort;

(4) To serve as a positive weapon in economic warfare--to cut off as many supplies from the enemy as possible, and also to use exports as a bargaining power to obtain supplies in which the United Nations are **deficient**.

As the war has progressed, shortages, loss of established foreign sources of supply, shipping difficulties and other abnormal conditions have made it necessary to control an ever-widening range of exports until at present all commodities are under some degree of supervision. In Canada several government departments are concerned with various supplies, but, in order to avoid delay and confusion, export control is centred in the Department of Trade and Commerce in its export permit branch.

During the last two years several developments have made this problem of export control increasingly complicated. Ocean transport has become a major problem, and it has been necessary to allocate available shipping space in order of the essentiality of exports. Shipping priority ratings (to South American countries mainly) are granted along with export permits in order to insure that all available space is utilized for essential exports only. Exports to blockade areas also are checked from every angle, which means communicating with agencies in the United Kingdom as well as on this continent, while exports to neutral countries require careful checking of consignees.

The application of prices ceilings in Canada has brought with it the problem of higher prices in other countries. This offers a considerable inducement to Canadian firms to sell abroad rather than at home, and consequently some form of export control has been unavoidable. The Canadian government, in order to keep domestic prices as nearly normal as possible, has been paying substantial subsidies on many products. These subsidies come, in the final analysis, from the Canadian taxpayer and would be lost if these goods were exported without check. As a result, several foods and other commodities have been placed under export control in order that the subsidies may be recovered before export is allowed.

Co-operation with the United States in the field of export control has also been important, because Canada now depends on the United States for a large proportion of its imports. Canadian export control conforms closely with that of the United States, in order that these imported supplies may not be exported from Canada to third countries in evasion of United States export control regulations.

TRADE WITH THE UNITED STATES

As a result of the war Canada's trade with both the United Kingdom and the United States has greatly increased. Long before it became a belligerent, the United States had joined forces with Canada for mutual military and economic protection. Many examples of close collaboration mark the progress of their friendship.

Within six months of its declaration of war, the United States had established economic collaboration and joint policies on the distribution of primary materials with its Canadian ally. On the realization that all-out war production required the maximum use of the labour, raw materials and facilities in each country, it was decided that their production and resources should be effectively integrated. Scarce raw materials and goods which one country required from the other were so allocated between them that the maximum contribution has been made of the most necessary articles with the shortest possible delays. Legislative and administrative barriers, including tariffs, import duties, customs and other regulations and restrictions impeding the free flow of war supplies have been suspended for the duration of the war.

Joint action is now being taken through no fewer than seven main committees, of which six have a bearing on the supplies of war materials and foodstuffs, passing from one country to the other. For example, the Materials Co-ordinating Committee was formed on May 1, 1941, to promote the movement of primary materials between the two countries, increase supplies and collect and exchange information on the stocks of raw materials available. Four sub-committees were then set up, on forest products, copper, zinc and ferro-alloys, with the aim of increasing Canadian production and, as a result, exports to the United States.

The situation has now greatly improved, and the two countries are less dependent on each other than they were two years ago. At one time United States orders for Canadian war materials amounted to one-quarter of Canada's total production; now they are about 12 $\frac{1}{2}$ %. At one time Canada was sending half its machine tool production across the border; today it sends 40%. The character of the trade between the two nations has now radically changed, until the outstanding feature has become the heavy volume of imports that Canada is drawing from the United States.

To a great extent this rise is a reflection of the Dominion government's war expenditures. The large volume of British purchases in Canada has also contributed indirectly, since the United States is the source of many of the parts and materials required. Also in its turn it is providing the machine tools and other capital equipment employed in types of production new to Canada. Furthermore, the increased volume of industrial activity accompanying the war has enhanced the Canadian national income, with the result that a greater demand for consumer goods has also led to increased imports across the frontier.

Canada's exports to the United States have increased, as has been noted, since the beginning of the war, but this increase has still not been as great as the increase in Canadian imports from the U. S. A comparison of Canadian imports from the United States in 1939 and 1942 shows an increase of 162.6%. A comparison of exports to the United States for the same years shows an increase of 133.6%.

For the same two years Canadian exports to the United Kingdom showed an increase of 126.1%; imports from the United Kingdom increased only 41.3%.

In 1942, 79.4% of total Canadian imports came from the United States, and only 9.8% from the United Kingdom. In the same year 31.4% of Canadian exports went to the United Kingdom, and 37.5% to the United States.

In 1943 imports from the United Kingdom showed a further decrease from 1942--from \$161,112,706 in 1942 to \$134,965,117 in 1943. And imports from the United States increased further--from \$1,304,679,665 in 1942 to \$1,423,672,486 in 1943.

Exports of Canadian produce to the United Kingdom in 1943 increased over 1942--from \$741,716,647 in 1942 to \$1,032,646,964 in 1943. Exports to the United States also showed an increase--from \$885,523,203 in 1942 to \$1,149,252,400 in 1943.

As the war has progressed the trend of imports from the United Kingdom has been definitely downwards, while that from the United States has gone up.

TRADE WITH THE UNITED KINGDOM

Since the beginning of its history, Canada has sent its produce to the United Kingdom. For generations Britain has been its largest customer, except for the occasional years when it shipped more to the United States. With the close of the war a new situation will arise. Will the dependable British market still be able to absorb Canadian goods as readily as before?

Sir John Anderson, British chancellor of the Exchequer, put the case clearly in the House of Commons in London on April 25, 1944: "To finance our purchases in the United States and to meet the external costs of war, Britain has parted with overseas assets to the extent of £1,000,000,000, and we have incurred undischarged overseas liabilities amounting to £2,000,000,000. We have parted with all this, not to neutrals, but nearly all of it, some 90%, to our allies and associates, most of whom will emerge from this war with their overseas financial position greatly strengthened as a result, just as ours is greatly weakened."

Hon. J. A. MacKinnon, Canadian Minister of Trade and Commerce, gave the Canadian Chambers of Commerce much the same warning on May 10, 1944: "British exports after the war will have fallen to a low level. There will probably be a reduction in the earnings of British shipping. There will certainly be a very heavy decline in the return from British investments abroad, due to the extent to which it has been necessary to liquidate those investments during the war. What impact will these problems make on our own foreign trade and export policy? The United Kingdom's trade policy, particularly as it affects imports, may radically concern the degree to which we are going to be able to sell our goods in post-war years in the country which has literally been the sheet-anchor market for many of the products by which the economy of both western and eastern Canada has been sustained."

From 1929 to 1938 Canada sold to the United Kingdom about \$2,800,000,000 worth of goods, while purchasing less than half that amount from it. For years prior to 1939 the United Kingdom was the greatest single buyer of Canadian exports:

Canada's Favorable Balance of Trade with the United Kingdom
(Including Non-monetary Gold)

In Fiscal Years

1935	\$180,026,133
1936	204,559,674
1937	279,512,776
1938	265,774,552
1939	233,318,014

Early in the war the Canadian government took steps to alleviate the situation. Under a program announced in Parliament at the beginning of December, 1940, the tariff was removed from British goods as a war emergency measure. Meanwhile the United Kingdom was gradually liquidating the investments made in Canada during the half century after Confederation. As its war needs increased, this source of payment came to an end. Canada then came to its assistance in 1943 with a contribution of \$1,000,000,000 with which to purchase supplies in Canada. This was followed by Canada's mutual aid program for the benefit of other United Nations as well.

Meanwhile Canada had been enormously expanding its own production. Employment must be found in the postwar years, not only for these new industrial workers, but also for the agricultural population who have always been the mainstay of the country's national economy. Their output of foodstuffs--wheat, dairy products, bacon, fruit and fisheries--has always found its principal market in Great Britain.

In London steps are already being taken to increase the demand for British merchandise in postwar markets all over the world. Plans include the appointment of businessmen resident abroad as marketing officers in principal countries. Small firms unable to send their own men will be represented by group agencies. The British Department of Overseas Trade has made a survey in 26 countries outside the European battle area for the "Buy-British" drive, and 140 exporting industries have been organized for the quickest possible trade effort after the war.

TRADE WITH COUNTRIES OTHER THAN U.S. AND U.K.

There is considerable misgiving that the United Kingdom may have impoverished itself so greatly by its war effort that it will be unable to continue to buy from the dominions as readily as in the past. This accentuates the importance of Canada's trade with other foreign countries, for although such trade has always been limited, Canada is anxious to keep it intact and increase it if possible in the post-war era.

Many (if not almost all) countries outside the actual theatres of war, which in the past were largely dependent on imported consumer goods, have in recent years become much more industrialized, just as Canada itself has increased its productivity enormously along this line during the war. This development may affect Canadian trade in certain lines, but it may merely result in a change in its character rather than in a decrease. For example, if it is impossible to resume Canada's trade in rayons in a given market, the trade commissioners may be able to replace it by exports of pulpwood, possibly on an even larger scale.

Before the war Canada carried on a small but satisfactory trade with Latin America, South Africa, India, Australia and New Zealand, but because of difficult conditions of shipping and supply this normal peacetime trade in civilian goods has necessarily been reduced. Secondary industries have accordingly been developed to meet the wartime need in each of these countries, although it is uncertain how many of these new efforts will continue after the war under normal peacetime competition.

Many of them will not be able to compete with Canada and other industrialized nations unless they are given a high degree of protection, and it cannot be said at present what the tariff structure of other countries will be. Another consideration of importance is that, without the means of keeping abreast of world research in new materials, methods, designs and processes, a good many of the products may become obsolete immediately the effect is felt of the great advance which has been made by such countries as the United Kingdom, the United States and Canada in technique and materials. The purchasing power of several markets has increased materially as a result of the war, and the peoples concerned will be able to buy better quality goods of the type made in Canada, rather than be encouraged, if not forced by financial considerations, to accept the cheaper and poorer quality as formerly offered by Germany and Japan.

Industrialization abroad has had an undoubted effect on Canadian trade based on pre-war standards. Canada may have to export semi-manufactured goods in some cases, rather than the finished products. As against this, however, the skill and ingenuity of Canadian science and workmanship may enable Canada to continue its trade in the forthcoming difficult years of transition.

MERCHANT MARINE

During the war Canada has attained the rank of third greatest trading nation in the world and has developed a ship-building industry which may have a bearing on the future of its external trade. The question has now arisen as to whether it should have a merchant marine fleet operating after the war to protect and foster this trade and to provide shipping requirements for national security.

Canada normally exports to world markets a high proportion of low-cost heavy-bulk goods on which freight rates are of primary importance. The possession of a merchant marine would ensure consultation, indeed an effective voice, in the formation of international shipping control arrangements.

In September, 1939, Canada had 14 fairly large shipyards and 15 smaller boat-building establishments and employed fewer than 4,000 men in the construction of merchant vessels. At the peak of its shipbuilding program, in the summer of 1943, there were 25 major and 65 smaller yards in operation, with 75,500 men and women at work in them.

Thus Canada during the war has invested heavily in shipbuilding; the value of cargo ships launched on its own slipways has risen from \$1,700,000 in 1941 to more than \$198,000,000 under the 1944 program. More than 400 cargo ships have been ordered, and 312 delivered. Those delivered include 285 10,000-tonners, 23 4,700-tonners, and four 3,600-ton tankers.

Nevertheless, as the minister of trade and commerce has pointed out, reckless competition in merchant marine building and operation can be as ruinous as a tariff war. Yet a factor contributing to a moderate program is the almost complete elimination of Germany, Italy and Japan from shipping competition for many years to come.

EXPORT CREDITS

To protect Canada's high position as a world trader during the difficult years of transition from war to peace, Parliament on August 2, 1944, passed the Export Credit Act. As the minister of trade and commerce pointed out in the lengthy debate on the bill, the government has no intention of extending credit assistance to all exporters, for Canada has everything to lose and little to gain by entering into a race of this kind with other countries. There are certain branches of Canadian industry, however, which are likely to need some credit assistance if they are to meet the terms of their competitors, especially during the unsettled post-war period. Firms producing such commodities as heavy capital equipment which is expected to last for years may be asked by their customers to allow payments to be spread over a longer period than manufacturing firms or commercial banks are ordinarily willing to finance.

The act is in two sections: Part I deals with a system of export credit insurance, and Part II provides for direct credit assistance to foreign governments for a three-year period at the close of the war. An Export Credit Insurance Corporation has been set up to handle the insurance aspect. It will be operated on a commercial and self-sustaining but non-profit-making basis. It has capital stock and a paid-in capital surplus of \$5,000,000 each. The maximum of guarantees to be given by the corporation is fixed at \$200,000,000, and the maximum of loans made and securities purchased at \$100,000,000.

There is no question of the risk of individual loss simply being shifted to the government, as this part of the plan assists relations with such importers as already have funds with which to make purchases in Canada. Commenting on this aspect of the measure, Mr. MacKinnon explained that the essence of export credit insurance is that the exporter enters into an export sales contract with an importer in another country and is able to insure himself on a premium basis in respect of the payment risks that are involved.

Many countries after the war will not be in a sufficiently stabilized position to carry on trade through regular channels. Accordingly, under the second section of the act, the minister of finance is authorized to provide the government of another country with credit to enable it or its importers to purchase Canadian-produced goods. It may guarantee the obligations of foreign governments for this purpose, make loans and purchase or acquire securities issued by foreign governments. All these financial steps are, of course, conditional on the other government agreeing to indemnify the Canadian government against loss in the transaction.

Finance Minister Ilesley likened Part II of the act to Mutual Aid, for countries without sufficient funds may still obtain Canadian products. Although the principle of making Canadian goods available was the same, under Mutual Aid there is no financial obligation. When it was suggested during the debate that the present Mutual Aid machinery could be maintained in the post-war period, Mr. Ilesley said that the government felt that so far as possible ordinary trade channels should be maintained and that there was no need for it to buy up the produce of Canadian firms and take care of their marketing.

On November 14, 1944, the Minister of Trade and Commerce, Hon. J. A. MacKinnon, announced that H. L. E. Priestman had been appointed chief executive officer of the Export Credits Insurance Corporation. Headquarters of the new corporation will be in Ottawa.

COMMERCIAL INTELLIGENCE SERVICE

Canada enters the post-war period with no advantages over its allies. Having devoted all its efforts to war production, it has been able to turn only about one-fifth of its exports into normal trade channels. Like all other allied nations, Canada will have to sell on the quality of its goods, their price and accessibility. Thus if Canada is to have its share of the post-war trade, it must be ready to act quickly when the war is over. It cannot delay in sending representatives to their posts in the liberated countries, able and ready to report to Canadian industry as to the goods that are needed.

This vital work will be entrusted to the Commercial Intelligence Service which has been maintained for more than a generation by the Department of Trade and Commerce--actually since 1892, when the department itself was set up. The department's first report mentioned commercial agents in Jamaica, Antigua, St. Kitts, Barbadoes, Trinidad, Demerara and Norway. Before 1895 these commercial agents were businessmen, but on January 1, 1895, the first fully paid commercial agent was appointed in Sydney, Australia. In 1907 there was a change in nomenclature, and since then the title "trade commissioner" has been used for the full-time officers. For some time after 1907 the title "commercial agent" was used to designate businessmen who received an honorarium for carrying on routine duties for the department.

Since then offices have been administered by trade commissioners, supported by one or more assistant trade commissioners as required by the volume of work. In 1939 there were about 50 such representatives established in 36 offices in 26 countries. As the war spread 11 trade commissioners or assistants had to close offices in enemy or occupied countries and return to other duties in Canada. Where possible, however, they will return to the cities where they were stationed before the war.

The function of these trade commissioners is to build up a demand for Canadian goods by linking Canadian exporters with foreign importers. They also study and report on conditions and import requirements in their territories; make direct inquiries and conduct preliminary surveys regarding the market for any product; and report the types of goods wanted, the competition to be met and the methods of packing, shipping and billing required. Since the outbreak of hostilities the trade commissioners have been performing an increasing number of war duties; this applies particularly in countries within the British Commonwealth and Empire, where questions of supply are being dealt with constantly.

Trade commissioners are called on to consider complaints and the settlement of claims arising from the shipment of Canadian goods; to inspect damaged and short shipments; to arrange bank accommodation for importers on drafts improperly drawn by exporters; to arrange for the quick release of goods by the customs, and unofficially to approach customs officials regarding disputed tariff classifications covering Canadian goods; to facilitate release of goods by shipping companies and the customs when documents covering shipments fail to arrive on time; and to assist in the collection of unpaid drafts, unpaid consignment accounts, unpaid commissions, etc. These forms of assistance constitute an important feature of their services to Canadian exporters.

The trade commissioners in 1942 received 3,900 inquiries compared with 2,400 in the previous year. They prepared approximately 4,000 reports for Canadian firms and arranged about 300 agency connections in importing countries. They were more or less directly responsible for placing orders in Canada valued at more than \$14,000,000.

Outstanding among these efforts were the following results achieved in other parts of the British Commonwealth and Empire and in Latin America, as well as in the United States:

The Canadian Trade Commissioner at Bombay was asked by the Indian Government to assist in arranging for the supply of a substantial quantity of crepe paper for use in the manufacture of anti-gas equipment. The manufacture and shipping of this paper, valued at \$50,000, were facilitated in Canada, and arrangements were satisfactorily concluded.

The Trade Commissioner at Dublin placed an Irish importer of seed peas in touch with a Canadian supplier, and an order amounting to \$43,000 resulted.

The Trade Commissioner at Liverpool gave considerable assistance to the Liverpool representative of a Canadian firm in placing an order for Magnochrome suspension bricks, valued at \$112,500, particularly in connection with obtaining necessary export permits and shipping space.

Through the efforts of the Trade Commissioner at Melbourne in placing a sample anti-gas cape before the Australian Department of Supply, a first order was eventually despatched to Canada to the value of \$980,000.

Through connections established by the Trade Commissioner office in New York, Canadian rolled oats valued at \$24,000 were shipped to South and Central America.

The New York office, working in close collaboration with a Canadian firm, secured orders for barytes for shipment to the British West Indies, amounting to \$180,000.

The officials of a Chilean delegation, following meetings with members of the Trade Commissioner's office in New York, proceeded to Canada to investigate export possibilities and, as a result, purchased ferro-silicon and standard manganese valued at \$100,000, these purchases being approved by the Metals Controller.

Through the efforts of the Trade Commissioner in New York, contacts were established in Canada for the supply of timber for the erection of naval, military and air bases. Initial orders amounting to \$450,000 were placed.

The Trade Commissioner's office in New York also assisted contractors who had been successful in obtaining orders for cement from the United States Government to secure supplies in Canada, and business valued at \$260,000 resulted from these contacts.

The office of the Trade Commissioner in Santiago de Chile was opened in May, 1942, and shortly afterwards the Trade Commissioner was instrumental in placing two orders, valued at \$18,500, for waterproof fabric with a Canadian firm.

With the assistance of the Trade Commissioner, a Port of Spain commission house was able to enter into business relationship with a Canadian house, and during the year dry-goods and provisions valued at \$122,000 were sold.

As a result of assistance given by the Trade Commissioner at Sydney, Australia, orders for quicksilver valued at \$85,000 were placed in Canada.

The Trade Commissioner at Sydney was also able to assist a Canadian exporter to secure contracts for blow-torches valued at \$22,000."

In order to keep abreast of industrial development at home, it has been the practice for each commissioner to make a periodic tour of Canada. While in this country he gives first hand information to possible Canadian exporters and makes direct contacts with Canadian manufacturers regarding opportunities and conditions of trade in his particular field.

The over-all organization of the Commercial Intelligence Service is being remodelled and strengthened. Current departmental financial estimates provide for an increase this year of nearly \$300,000 in the appropriation for this service, the largest increase ever included in any one year's budget for this purpose. If the additional funds prove insufficient, the minister of trade and commerce has indicated that a further substantial increase in future appropriations will be sought.

It is planned to increase to 11 the four commodity divisions of which the service consisted in pre-war years. These will deal with the following branches of industry and trade: Iron and steel; chemicals and minerals; machinery and tools; fish products; animal products; field and orchard products; wheat and flour; wood; paper; textiles; rubber and wearing apparel, as well as a general manufacturing division.

Each section will be headed by a specialist who will have adequate assistance. Each of these specialists will know intimately the manufacturers or producers of the commodities concerned. He will be able to give helpful advice on shipping, marketing and, in fact, on all aspects of foreign trade.

Anticipating post-war conditions, the government has drawn up elaborate plans for enlarging its representation abroad. There will be more legations and embassies, and a notable increase in consular offices. As many as 65 new positions are planned for the Commercial Intelligence Service, which will thus go into the post-war world greatly increased in strength.

The trade commissioner service in the field, as well as at headquarters in Ottawa, is being augmented and strengthened as suitable personnel can be selected. It is expected that 12 assistant trade commissioners will be appointed during the current fiscal year. The Department of External Affairs is co-operating by holding examinations for the various ranks, and successful candidates will be instructed in foreign commerce. While still in this country they will call on Canadian manufacturers and report on Canadian industries. They will also learn how to compile statistical information and handle trade inquiries, etc.

Recently a circular was sent to the Canadian armed forces wherever they are stationed to advertise for young men to take positions abroad as trade commissioners and for others to serve at headquarters in Ottawa as commodity officers. Arrangements have been made for applicants in the United Kingdom to try examinations at the office of the Canadian High Commissioner in London. Applicants stationed elsewhere will get in touch with the Canadian trade commissioner in their area--for example, those in the Near East with the trade commissioner in Cairo, those in India with the one in Bombay.

Every young man in the Canadian armed forces may try for one of these jobs, and rank in the services will have nothing to do with selections. The Department of Trade and Commerce, which is looking for well qualified, alert young men, is prepared to make appointments on a strict basis of merit. Many young Canadians now stationed in far-flung theatres of the war have already acquired a talent for representing their country in a dignified and genial way.

The task of restoring Canada's peace time export business to its full vitality and strength will demand the closest co-operation among the Departments of Trade and Commerce, Munitions and Supply and the Wartime Prices and Trade Board. It will require also the maximum co-operation from industry. Accordingly the first step has been to set up a new division of the Commercial Intelligence Service known as the Export Planning Division. The purpose of this new division is to work out export programs in detail for different classes of goods as they become available, and to make certain that each program has the approval of the industry concerned, as well as of the various departments whose interests have to be taken into account.

A Canadian Export Board has also been established to deal with foreign trade. This board will not attempt to regulate normal commercial activity. On the contrary it has been formed to deal with government-to-government transactions, such as take place under the Mutual Aid agreements, but not to handle export business that can be dealt with through regular commercial channels.

In the past the activities of the Department of Trade and Commerce have been directed almost entirely to export trade. While the promotion of exports will remain its primary function, still another new division has been established to study imports in response to requests from both exporters and importers. Canada has come close to being a first class importer. Its exports have always been much greater than its imports, but with its over-production of primary products, its economy could hardly function in any other way. In 1939, although Canada then stood fourth among the world's exporting countries, it was only eighth among the importers. Every effort is being made to co-ordinate imports with exports, so that a proper balance of trade and a healthy overall Canadian policy in international commerce will be achieved. The first move in tackling this problem was the establishment of an Import Division of the Department of Trade and Commerce.

The importance of these post-war efforts has been summed up by Graham Towers, governor of the Bank of Canada:

"Our present state of full employment is due in no small part to the enormous increase in our exports during the war. No possible increase in domestic consumption will enable us to absorb our grain production or the output of our forests and mines and various other industries. We must do everything possible to broaden the markets for our exports in the post-war period. We must encourage all efforts to promote the wider international exchange of goods and services through appropriate measures in the fields of international monetary arrangements and commercial policy. For our own sakes, we shall certainly be faced with the necessity for extending credit to other countries in the post-war period. Also, if we wish to maintain our exports at a level which will help to achieve high national income and employment, we must be prepared to import on a corresponding scale."

