



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 50/15

CANADA'S WORLD TRADE

An address by Mr. L.B. Pearson, Secretary of State for External Affairs, before the Hamilton Chamber of Commerce, on April 24, 1950.

Any minister in any government today who is responsible for the conduct of external relations is bound to be particularly interested in and concerned with trade and economic matters, because they loom so large - for good or evil - in determining the relations between nations.

It has been said that if goods do not cross frontiers, arms must. I'm not so sure of that. Certainly the corollary is not true that if goods do cross frontiers, arms won't. Trade has, in fact, often in the past brought conflict, rather than co-operation, and gentlemen adventurers trading into outer areas have often requested and received support from the armed services of their governments in their commercial ventures.

Men trade with other countries, in fact, because it adds to their wealth. That is no ignoble motive. Governments support them - when they do - because this trade and this wealth add to the national welfare. Trade which does that deserves government support. The opposite is true also.

In Canada, more than in most countries, international trade is vital to our prosperity. The fact that we now export to 112 countries and import from 110 shows that we recognize this. We recognize also the fact that today our trade faces special problems which arise, for the most part, out of the complications and perplexities of the international situation; problems which can only be solved by international action, but will certainly never be solved by sitting back and hoping that something will turn up; by assuming that we are merely passing through a temporarily difficult period which will soon be over.

One of the most imaginative and compelling phrases that emerged during the war was coined by a great American who unhappily was not spared to fulfil the promise of his early career. Wendell Wilkie talked and wrote about "one world" - the "one world" of peace and of commercial intercourse. The idea - indeed the hope - expressed by this phrase was then in everyone's mind and heart, a beacon leading us through the darkest days of the war, giving us the promise of a result worthy of our efforts. There is no more depressing aspect of the post-war period than our inability to realize this ideal. There are, in fact, moments when we seem to be dropping further away from the goal of an orderly and united world rather than advancing upon it. For those of us to whom foreign policy is a matter of daily concern, nothing is more urgent or vital than the need to keep on

the road to one world and to keep moving, even though the highway upon which we thought we had set our feet turns out to be little better than an uncertain and overgrown jungle path.

The divisions amongst the nations of the world which have risen like road blocks in our way towards unity are complex and varied and unhappily they rise even among the best of international friends. In this audience of commercial leaders in the community there will, I know, be a particular interest in the trade and currency problems which have arisen in the Western World, and which now threaten to divide it in a way which will give no satisfaction to anyone but the gentlemen in the Kremlin who gloat with pleasure over anything and everything that divides the free democracies. It is indeed a strange and tragic anomaly that, in the Western World, having fought off the threat of German domination by an enormous co-operative effort, we now face problems in our economic life, in the long run of almost comparable danger. In the course of victory, we used up resources at an unheard-of rate, but we also released tremendous productive capacities. It is a magnificent tribute to the economic power which resides in our democratic society that within a short five years we have gone so far towards rebuilding the fabric and restoring the economic vitality of our western international community. But we have not solved the international problem of exchanging the products which we are so well able to produce.

One expression of this problem is the difficulty which Canada today experiences in selling its products, especially its food products, in sterling markets, at a time when those products are needed so badly and when they are admittedly competitive in quality and in price.

I wish I knew a solution to this difficulty. I do know, however, that anyone who suggests a solution, or who even tries to analyse the problem, is dangerously exposing himself. I am not a trained economist or an expert on these matters, and I may therefore utter heresies when I talk of them. In the Middle Ages heretics were disposed of by being burned at the stake. In these gentler days, however, I am not in danger of such extreme penalties, and perhaps only my ears will burn for my indiscretions. I am comforted, moreover, that I shall be in good company with my burning ears, for I recall that as late as 1946 a great economist of world renown wrote:

"The chances of the dollar becoming dangerously scarce in the next five or ten years are not very high."

The dollar shortage, which the economist I quoted said would not materialize, has now made itself dramatically apparent in the very currency in which he earned his living - sterling. The difficulty, however, which the United Kingdom is having on account of its trade balance is obviously not merely a problem between that country and North America. The wide international ramifications of the problem were immediately apparent on the monetary exchanges of the world the day after the pound was devalued last autumn. The sterling area extends to four continents. Some parts of it are highly industrialized and densely populated; some thinly settled but rich in potential wealth. The economic variety of the area is matched by its political complexity. Besides the British Isles and dependent overseas territories of the United Kingdom, it includes Australia, Ceylon, India, New Zealand, Pakistan and South Africa, which are members of the Commonwealth, in addition to Burma, Egypt, Ireland and Iraq, which are not. We do not wish to see this sterling

area weaken and break up, but we also do not wish it to become exclusive and discriminatory. Canada has a particular interest in this matter because we have one foot in the sterling and the other in the dollar pool. We depend on both for our exports. To put it another way, in trade and monetary - and, indeed, in some other matters - we stand midway between the United States and the United Kingdom. The middle is a very satisfactory place to be if those on either side support, rather than squeeze you! But, for better or for worse, that is where we are; in the middle, linked to each side. We rationalize that position - at times we idealize it, by saying that it makes us the interpreter between London and Washington!

Between Confederation and World War II, more than three quarters of all our exports normally went to these two countries. Further, our exports were once divided fairly equally between them - but in 1949 only 23 per cent went to the United Kingdom and 50 per cent to the United States. Those figures tell the story of the Canadian export problem.

That problem itself is about as easy to state as it is difficult to solve. It is certainly not enough to say that it is merely a shortage of dollars, which causes all the trouble. The dollar shortage is, of course, real enough but it is the result, not the cause, of the present difficulties. The difficulties themselves arise out of the present lack of balance between world production and world distribution. This, in turn, is largely due, either directly or indirectly, to the war; or rather to the uneven impact of the destruction and dislocations brought about by the war, which left certain countries - normally great importing countries - much more crippled and shaken than the great North American supplying countries. The old European world was smashed; the new world hardly dented by war. And in the old world the smashing was uneven and the recovery consequently uneven.

The roots of the crisis go much deeper, in fact, than anything in recent history. From about 1870 until the first world war, genuine international economic equilibrium was achieved by an expanding, delicately balanced and highly complex system of trade and finance involving capital and gold movements and semi-automatic internal adjustments in the participating economies to meet developments as they occurred. The system was originally made possible by the operation of the gold standard, by easy trading conditions, by technical improvements in transport and production, and was based on the classical division of labour. Through its operation, industrialized countries imported raw materials and exported a large part of the resulting manufactured products to the primary producing countries. The United Kingdom more than any other country followed this economic trend to its logical conclusion by becoming dependent to a very high degree on food and raw materials from abroad.

It is at least half a century since the growth of new industrial areas outside of Western Europe created the first stresses and strains upon this complicated structure of international trade. The first world war gave it a tremendous jolt, and greatly accelerated the processes which were undermining it. The depression, of course, hit it with the force of a sledge hammer, and when the second world war followed, it was not possible to patch up the wide cracks which by this time had appeared. For the British, in particular, the two wars brought real economic distress because they forced the United Kingdom government to liquidate rapidly and without hesitating over the long-term consequences, the great financial reserves and assets which it held abroad. The British, more than any other people -

and it is to their everlasting glory - used up all the available water to stop the fire, so it is not surprising that now they can't have a bath twice a day!

It is now clear that the Western World must set about re-designing the structure of its international economic relations, even as it must rebuild its international political life. In this re-designing and rebuilding, no country has more at stake than Canada. In the plans and policies we adopt, we shall be well advised to take into consideration the new orientation of world economic power. That we are doing so is shown, I think, by the increase of our exports to the United States and the discovery and development of new markets in Latin America and elsewhere. We must press further along this road, especially in Asia, which offers great long view possibilities, though the immediate difficulties are tremendous. We must also do everything we can to develop our own resources for our own people, in a way which will make us less dependent on dollar imports. There are great and encouraging initiatives being undertaken in this field. But at the same time, we must make every effort to maintain our place in sterling markets; by trade negotiations; by setting up - as we have set up - Anglo-Canadian trading machinery; by giving all the official support we can to private ventures; by political discussions at the highest level to drive home the point that Canadian resources are not merely a great reservoir to be tapped in time of trouble, but one which should supply a steady and continuous stream of goods across the Atlantic. We must realize, however, that if this stream is to flow outwards, there must also be one flowing in. This means even more than sensible tariff policies. It means the active encouragement of imports from the sterling area; import promotion activities which will assist the sale in Canada of goods from those areas. It may even come to mean in certain contingencies action to keep out of Canada competing imports from other countries. All this involves difficult and complicated and at times irritating government action, which is justified, and only justified, by the changing world trading conditions I have mentioned and the necessity of Canada adjusting herself to them. In the recent past we have shown our understanding of these changes, by giving direct aid - through gifts and loans - to our European customers, who have been subjected to such shocks and changes in the last twenty-five years. Particularly has this been true with the United Kingdom. But our loans and gifts are now practically used up. And it should not be forgotten that unless we are willing to accept a somewhat lower standard of living than we now enjoy, we can make new contributions of this kind only out of a current trade surplus. That surplus is now a very small one.

It is sometimes said that all our export difficulties would be solved if the dollar and the pound were only convertible. But as I have said, inconvertibility is not the disease. It is merely the symptom of the disease. We shouldn't let ourselves be confused by the careless use of these terms. A Canadian government could, I suppose, by decree make pounds convertible into Canadian dollars; it could agree to "take sterling" for all dollar exports in excess of those covered by our sterling imports or dollar investments. But that would merely mean - in present circumstances - an additional gift - though a concealed one - to the sterling countries concerned. The Canadian taxpayer would "pay the shot".

We may, of course, have to take some kind of action in the future to assist our exporters by further loans or gifts to customers. I hope, of course, as you hope, that we won't. But we shouldn't try to fool ourselves that we can escape the consequences

whatever they may be - of such action by attempting to give it some transparent disguise. The plain fact is that no financial or monetary sleight of hand can, of itself, solve the problem of unbalance in our trade with the sterling area.

We should recognize that we are faced with a tough long-range international problem which is as political as it is economic; which is in some ways as novel as it is complicated and for which there is no single or simple remedy. A return to the freedom of trade of 1914 is not practicable because the political and economic conditions of that age have disappeared, possibly for good. At the other extreme is the remedy of total control of trade by governments, which means bilateral deals, barter arrangements, etc. As I see it there is no salvation to be found in this approach which restricts enterprise and initiative and which inevitably tends to limit the areas of exchange and subsidize high cost production.

Somehow or other the flow of goods multilaterally must be restored and this can only be done by a concerted effort based on close and friendly understanding and co-operation between the new world and the old.

It should - as I have suggested - involve a re-examination of economic policy by all the countries concerned, in the light of the present international economic and political position. Especially, if I may say so, is this true of the United States which, notwithstanding its magnificent contribution in loans and gifts to less fortunate countries, still has a large favourable balance of payments with the rest of the world, which can hardly be justified by its creditor position.

At the same time, the countries on this side of the Atlantic have the right to some assurance that the measures which have been taken, or may be taken, to assist Europe, and thereby ourselves, will be met by measures on the other side which will make such assistance effective and not mere "down the drain" help; and that such assistance will not be used to build up high cost, restrictive areas from which we will find ourselves in the future virtually excluded.

The task of reconciling these interests - these various aspects of the one problem - is a terribly difficult one. If we are to succeed in it, and it is vital that we should if we are to win the battle against the reactionary forces of Soviet communism, we will need more vision and wisdom than the democratic countries sometimes show in their economic and financial relations with each other. Each of us may have to forego some immediate advantages for the long-term general good. To put it in concrete - and Canadian terms - we, here, may at times have to forego winter lettuce from the winter vacations in California. We may also have to watch imports from the United Kingdom, encouraged by our government, compete successfully with our own domestic products.

In working out these problems successfully, in attempting to reconcile these differing interests, we can, I think, use our North Atlantic Pact - our North Atlantic Alliance. It may provide the foundation for a great co-operative economic commonwealth of the Western world - which one day may become a political commonwealth. You may say that this is unrealistic nonsense, but I suggest that in this jet-propelled, atomic age, no plan less than this will be adequate; no vision less than this will do.

It is of urgent and great importance that we should develop the concept of a North Atlantic economic and social community within the framework of the North Atlantic Treaty. Up to the present, we have considered the North Atlantic Pact as primarily a defensive military arrangement to increase our power to resist aggression. We were right in giving this side of it priority and we have made encouraging progress in organizing and planning our defensive system. But it is now time to plan our economic defences. In the long run our hopes for the safety and prosperity of the North Atlantic world will prove illusory unless we regard the North Atlantic Treaty as being a great deal more than simply a military alliance. The terms of the Treaty, especially Article II, specifically pledge its members to make every effort to broaden the basis of their association, and not restrict it to defence alone. This aspect of the Treaty, which holds out the promise of economic co-operation, has always seemed of particular importance to the Canadian people and their government, because we believe that in the long run our ability to stand fast against the attacks of international communism will rest in the well-being of our own people and in that of our friends and allies. We also know that this well-being cannot be ensured by national action alone. We believe that the purpose which we have declared in signing the North Atlantic Treaty can only be fully realized if by our joint efforts we solve the economic and social problems which threaten the area that we have undertaken to defend. We can, I hope, make progress on this front at the North Atlantic Council meeting in London in May. It is time that we began, because it will be a long hard process.

Up to the present we have occupied ourselves only with the foundations of our North Atlantic system; with the search for agreement on principles. Now we face the far more difficult and challenging task of constructing the superstructure - of converting our principles into policies. We now have to give effect to such agreeable and popular phrases as "integration of production", "standardization of weapons", "co-ordination of activities", "mutual aid", "sharing the burden", etc., etc. All these are fine ideas, essential ideas - good material for any after-dinner speech! They are easy to accept in principle; difficult to work in practice. In no sphere of collective action will the difficulty be greater than in the economic field. In no sphere, is it more essential that we should succeed. I hope, therefore, that we can make a good beginning towards this success in London in May.

I think that our past record will give our friends the assurance that Canada will do its part. At the same time the other members of the group will recognize, I hope, that one of the most effective contributions we can make in Canada to the general security is through the full development of our own natural and strategic resources, and the building of a strong and balanced economy in the northern half of this continent. This is itself a big undertaking for a young country, vast in area, small in numbers, vigorous in climate, but it is one which we must carry out if we are to play the important part in ensuring North Atlantic security, that we wish to play. Certainly it will be difficult for us to give at this time much defence aid in the form of arms to our European friends, if such aid represents a drain on those United States dollar reserves, the inadequacy of which has recently caused us so much anxiety; and will probably continue to do so as long as 145 millions of Americans buy less from Canada than 13 millions of Canadians buy from them. Also the Canadian people might find it difficult to understand why we should be providing assistance to Europe, if that continent attempted - for any other reason than strict and demonstrable

financial necessity - to organize itself in a way which would make it more difficult for us to trade with it, and especially with the United Kingdom.

The whole problem is an immensely complicated one, and we should not approach it either complacently or impatiently, nor can it be solved by Europe acting alone or North America acting along. Even regional isolation will be no good here. But we can be reasonably optimistic about the outcome. The way in which the United States and Canada have accepted their international economic responsibilities in recent years is, I think, an earnest of our goodwill and determination to accept those that lie ahead. Canada's post-war loans, credits and gifts to European recovery and reconstruction is proof of our desire to help. The United States Marshall Aid Plan, that great act of imaginative statesmanship, but which is soon coming to an end, would alone exonerate our neighbour from any charge of selfish nationalism. No matter what the ledgers may show when the final accounting of the European Recovery Programme is made, we shall never be able adequately to estimate the value of its contribution to the salvation of the whole Western world from the forces of Russian communist imperialism. We have only to consider the political programme of the Cominform and the tight and tyrannical treaties which the Soviet Union has concluded with her Eastern European neighbours to appreciate the quality and magnanimity of the Marshall Plan and its ability to produce the results which are essential if the dark rush of Soviet communism is to be checked.

But much remains to be done. The Point IV programme of technical assistance under the United Nations to underdeveloped countries is one important development. The burden of sterling debts which so greatly hampers British full recovery must be considered as more than a British problem and something done about it. The move to a wider European unity - financial and economic - must be pressed further, but not in such a way as to divide Europe from North America. Investors on this side must be prepared to send their money abroad, but they are entitled, on their part, to reasonable profit and security if they do; or at least the assurance that insecurity will not arise through arbitrary action which is political in origin.

All these issues, all these problems, all these possibilities can be examined, not merely bilaterally, but through the collective machinery of our North Atlantic system, which will, I hope carry on when the arrangements set up under the Marshall Plan disappear, as they are expected to do in 1952. We don't need to expect miracles, but we have every right to expect a serious effort by the Atlantic alliance to begin now to plan for the days ahead and to meet the challenge of the international economic as well as the international political problems of this tense and difficult time. This effort may necessitate financial, economic and even psychological adjustments by the North Atlantic states. These are never easy to make within the framework of national sovereignty. If, however, we insist on defining the problem in terms of broad regional rather than national interest, and if we keep our eyes fixed upon the ultimate objective of a world in which the economic causes of war, and the social and political conditions which breed war, will be reduced to the very lowest possible level, we can succeed in this great task.

Canada must continue to play the good part in these international economic questions that she has played in the past. No country has done more to implement the ideas I have outlined than ours. That, I think, was intelligent self-interest on our part and we should follow along that road as far as we can. How far we

can go, however, will depend on two things; on the energy and intelligence we show in conducting our own affairs, and on the international trading policies of others. So far as we are concerned, if we sit back - in Ottawa or in Hamilton - and let nature take its course; if we blind ourselves to the implications of the far-reaching changes that have taken place in international trade and political balances; if we rely on old patterns of trade being continued indefinitely, or on old policies which have served us well continuing to work in changed conditions, we'll get into trouble.

At the same time, even if we avoid these pitfalls, we may still find ourselves in trouble if the United States, for instance, refuses to recognize the implications of its world creditor position or of its trade balances with Canada; or if the sterling area maintains its restrictive dollar policies one moment longer than is absolutely essential on financial grounds.

It's a complicated and difficult situation. It's a tough problem for any country, and a very tough one for a country like ours; dependent as we are on foreign trade, and with half a continent which can only be developed as we want it to be developed by the proceeds of that trade.

But tough problems are made for tough people, and we Canadians are tough people.