GOVERNMENT OF CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 48/55

EXPORTS: OUR CHARGE - OUR CHALLENGE.

An address by Mr. M. W. Mackenzie, Deputy Minister of Trade and Commerce, at the Fifth Annual Meeting and Convention of The Canadian Exporters' Association, at Toronto on October 22, 1948.

I thought that what I should do to-night would be to discuss with you some of the basic factors that have a bearing on the all-important question of the outlook for our foreign trade. A lot of what I shall have to say will not be cheerful, but I know you would want me to be frank and not to gloss over difficulties that undoubtedly do exist and will continue for some time to come.

First of all, let us look for a minute at some of the salient features of Canada's present position. Our foreign trade to-day is running at the record level of $6 billion a year and our balance with the United States, which is the most critical and vulnerable aspect of our trade, has improved impressively. I make no apology for introducing some statistical references. The statistics in this case are pretty impressive. We are to-day the third largest trader in the world; our total trade to-day is greater in value than was that of the United States before the War; our exports to-day are double the per capita exports of the United States, the United Kingdom or of any other major trading nation.

In the face of these facts, it may seem surprising that I should deliberately choose this occasion to sound a sour note which, I should like to add, though of real concern, is not a raven's croak. My concern in respect of the future of Canada's foreign trade, a concern which I know is shared by you gentlemen here, has to do in part only with the absolute volume of our trade and the related problems of our balance of payments. Of perhaps more concern is the future composition and direction of our foreign trade.

We must, of course, recognize that the tremendous volume of our present trade is, in large measure, a result of the wartime destruction and the vacuum thus created. Germany's trade, for example, was about three times ours before the war, and our trade is now three times hers. Japan's trade was about equal to ours before the war and it is now about one-eighth of ours. The elimination of these two important trading nations is one of the reasons for the present volume of our trade.

But the very reasons which have contributed to our volume have brought difficulties. Many of these difficulties, while stemming from the root cause of the dislocations of war, take their tangible form as trade controls adopted to meet particular problems. The methods by which these

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problems are met are those which the peoples and governments of the various countries deem best under all circumstances. Some are designed to meet balance of payments problems, such as import controls designed to limit expenditures of scarce currency; others are the consequence of price support or other policies designed to maintain employment and level out the peaks and valleys of price movements. But the fact remains that practically all countries of commercial importance, and particularly those that are experiencing difficulties in their international balance of payments, are using in greater or lesser degree the technique of direct trade controls. It is, however, not my purpose to argue here the pros and cons of the various methods by which these problems are being or could be met in this or any other country. Much time and thought has already been given to these subjects both in Canada and in numerous international meetings, and the discussions should, and undoubtedly will, continue. Strong views are held in different quarters on these subjects and there will always be arguments as to the degree to which one method or another should be used to achieve the desired results.

What I should like to do to-night is to start from the premise that, whether we like it or not, and irrespective of the particular technique that is used in any country, the trade of a large number of our traditional customers is going to be regulated for as far ahead as one cares to look these days. The particular method by which the trade is regulated, whether it be by a direct import prohibition, by a system of multiple exchange rates, by rigorous customs administration, or simply by high tariffs, may often appear as the direct cause of our trouble; but the simple fact is that the dislocations of the War, coupled with increased concern in most countries over the stability of prices and the maintenance of employment, add up to only one result -- regulation of trade. Furthermore, it is the case that a good deal of this regulation is designed towards exchange conservation, with the inevitable tendency to favour imports of raw materials rather than manufactured goods. For example, in the case of the United Kingdom one only has to recognize the impact of the loss of that country's foreign investments, from the revenue on which she used to pay for a large part of her imports, to see the obvious pressures that develop to protect domestic industry, to do without imports of anything that can be manufactured domestically and to spend the country's limited resources on raw materials and basic foodstuffs rather than on manufactured goods.

In looking at the Canadian position I have mentioned foreign trade first, but one must also look at the other main pillar, or, if I may mix a metaphor to illustrate my point, the other main-spring of our economy -- the level of our domestic investment. There is an important relationship between these two -- foreign trade and domestic investment -- and we are very dependent on maintaining this relationship as a harmonious and closely coordinated working arrangement if we are to maintain a high level of employment and income. It is an interesting coincidence, but just a coincidence, that our exports this year will be about $3 billion and our domestic investment about $3 billion.

The volume of Canadian domestic investment since the War has been as impressive as the volume of Canadian foreign trade. Again, to give you some statistics, in the four years 1945-48 we have made a larger investment in manufacturing enterprises and utilities, and for that matter in all forms of business, than we made in the four boom years 1926-29 and the four pre-war years 1936-39 added together. The wartime elimination of the

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trade of Germany and Japan that I mentioned a minute ago is one of the factors that has forced Canadian industrial development. The necessary post-war relief and reconstruction is another. Our total new capital investment this year is, as I have said, of the order of $3 billion. About half of this total is in manufacturing plants and utilities, with manufacturing plants accounting for about $600 million. Here we have a serious dilemma developing. On the one hand, we are engaged in the greatest capital investment boom that this country has ever known and yet, while our domestic industry is expanding and improving its competitive position, our traditional foreign markets for manufactured products are closing.

While the fundamental reasons for the loss of these markets is deep-seated, the problems are brought into focus and to some extent sharpened by the Marshall Plan or, as it is now known, the European Recovery Programme. I do not wish to be misunderstood on this point. We are all deeply appreciative of the magnificent measures which the United States has taken to assist European recovery. Canada will derive great benefits from these measures and we are co-operating with the United States in the European Recovery Programme to the maximum of our ability. Nevertheless, we must recognize that the European Recovery Programme will not solve our problems -- that, even when it has run its course and the recipient countries are able to stand on their own feet, that is, without direct outside assistance, they will still be a long way from being open for 'business as usual'; and, furthermore, that the programme itself has some unfavourable implications for us.

In the first place, the programme contemplates a four-year period, during which it is recognized that the European recipient countries will not be able to make both ends meet and will be dependent on some form of outside assistance -- the direct aid reducing as the period progresses and as recovery proceeds. European countries are, therefore, under strong pressure to provide for themselves and for each other. Furthermore, by reason of the financial and trading relationships between certain of the recipient countries and other parts of the world, particularly the relationship between the United Kingdom and the sterling area, the necessary dollar conservation programme will probably extend in increasing measure to even more of our traditional markets.

Still another aspect is that the E.C.A., which, in this age of using initials rather than names is the designation of the United States organization in charge of the programme, naturally favours purchases of United States rather than Canadian manufactured products, where manufactured products are judged essential to the programme of any of the recipient countries. In the same way, when any product of the United States is in surplus supply, which surplus is judged by the American authorities to be burdensome, it follows, with some justification, that United States supplies only may be financed under the plan.

The impact of all this has fallen to some extent on our agricultural products, but in particular it is hitting our export manufacturing industries. The net effect is to increase the importance of many of our raw material supplies from Canada, but to weaken our competitive position in the more profitable field of manufactured exports.

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We are thus concerned with the possible need of re-orientating an important portion of our foreign trade. I need not labour the importance of maintaining our present volume of trade, and of domestic investment based on it, if we are to maintain our present level of employment and income. This seems to me a joint responsibility of both Canadian exporters and the Canadian Government.

By joint responsibility I mean that our manufacturers must not only be able to compete efficiently, but must also search out every possible foreign market, and that the Government must use all the powers at its disposal to minimize such discrimination against Canadian products as does exist. I would like to use the word 'eliminate' but I think that 'minimize' is more realistic.

It is equally important to consider what basic redirection of our trade may be necessary. A comforting development in this connection is the strides we have already made in expanding our markets in the United States and improving our balance of trade with that country. In this connection it is interesting to note that, on a most conservative basis of estimate, between 40 and 50 per cent of the $600 million invested in manufacturing enterprises in 1948 will effect immediate and direct gains in our U.S. dollar sales, or reductions of our U.S. dollar imports.

In the first nine months of 1948 we have whittled our adverse merchandise trade balance with the United States down from $720 million to $267 million. This is an improvement averaging $50 million a month. We have done this in spite of some deterioration in the terms of trade resulting from the higher prices for American coal, steel and oil. It is the most tangible evidence possible that Canadian industry has now come of age and can, in an increasing number of lines, compete with any company in any country. The Geneva Trade Agreements were one important step in making it possible for Canadian industry to compete on equal terms and it has been frequently stated that the Government will continue to press for the expansion of these agreements and further relaxation of trade barriers, with particular reference to the American market. The theme for your Conference is well chosen, for without any doubt the Canadian export industry is to-day facing a major challenge, but one which I am sure it will not fail to meet.

It is, of course, relatively easy to point out the problems and to dwell on the difficulties. Much more difficult is the job of finding the answers and deciding on the steps to be taken. No one, I suggest, knows the complete answer, but perhaps a brief review of some of the developments of our external trade in the last few months may point up some of the avenues of promise as against the rocky and, to some extent, impassable roads that I have been discussing so far.

Undoubtedly, the market which must command our first attention is the United States. In the first nine months of this year we have increased our exports to that market by just over $300 million. Admittedly, the great bulk of this increase is in primary products and what might be described as semi-manufactured goods. I mean such things as refined metal, lumber, newsprint and agricultural products. But, if you will study the trade statistics which are now available in detail for the first six months of the year, and which will shortly be available for the first nine months, you will find some surprising increases between this year and the corresponding period of 1947. The figures involved to date have been small and it would be quite wrong to suggest that the improvement in our position with the United States is to any important degree the result of the export of highly manufactured products. But the point I want to make is that, under the stress of the loss of other markets, and the pressures resulting from our own exchange conservation programme, which, as you know, contains some element of bonus for additional exports, there have been sales to the United States of goods which one would not ordinarily expect to find us selling in that market. I could make some of these increases in exports sound very startling by expressing them in percentages, because heretofore the exports

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have been negligible. Percentage figures, however, would be quite misleading. Here, however, are a few of the items picked at random from the trade statistics:-

Jams, jellies and preserves
Processed fish
Leather
Canned meats
Woollen outer garments and sundry clothing
Domestic washing machines
Typewriters
Plated silverware
Aircraft parts

And so the list goes on.

It may well be that in many of these cases there was some special reason or situation that made the sale possible. Practically all of these transactions are, of course, private sales and the Government has no direct knowledge of the particulars. But the fact remains that sales are being made in an ever-increasing range of commodities to the United States, even under existing tariff rates and with such difficulties as do arise in the administration of customs regulations. Faced as we are with the loss of an important and increasing part of our traditional markets for manufactured goods, there would seem to be every reason to justify Canadian exporters undertaking the most thorough and complete study of the United States market that is possible.

Canadian companies which are branch plants of American parent companies have an added opportunity to develop new markets. In the course of our administration of the Emergency Exchange Import Control we have had occasion to discuss these matters with hundreds of such branch plants, and in a surprising number of cases it has been possible to develop new export business with the United States and other dollar markets. Sometimes this takes the form of markets, previously served by the American parent company, being turned over to the Canadian plant. In some cases the Canadian plant has specialized on one particular model and been given the rights to export that model to the world. In other cases the Canadian plant has been given the opportunity of making certain components and shipping these to the parent company in the United States. Examples of products that have been handled in this way are typewriters, washing machines, film packs, locknuts, sewing machines, radios and electrical goods. In many cases the results of these arrangements do not yet appear in the trade statistics, but the exploratory work has been done and orders have been placed.

It would, I think, be difficult to over-emphasize the importance of the American market, but there are also other markets which should not be overlooked. Here again, I have in mind not so much our balance of payments problem as the position of, say, a small Canadian manufacturer who finds himself losing his traditional markets in the British West Indies or other parts of the sterling area. What I have said about the potentialities of the United States market is, I believe, true, but obviously it will not be open to all our exporters who may lose markets elsewhere. Some there will be who, despite their best endeavours, just can't get into that market under present circumstances. To them I suggest a study of trade statistics of some of the markets that have not been traditional outlets for Canadian products. Don't just study Canadian trade statistics, but look at the total imports of those countries and see the sources from which they are now drawing their supplies.

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Try the Belgian Congo, Burma, Madagascar, Portuguese Africa and others. You will find that they are importing a great variety of manufactured products. Canadian trade with these areas is relatively small, but it is amazingly diversified and I cannot believe that there are not opportunities for expansion of such volume as now exists and for the development of other similar markets.

It was in an endeavour to stimulate this sort of trade that the Canadian International Trade Fair was conceived and brought into being this year. Many of you, by reason of your own individual participation, or through your Association's official representation at the Fair, do not need to be told much about it. Let me just mention, however, that the products of some 1450 manufacturers from 28 different countries were on display. Most of these, of course, were from Canada, but about 43 per cent of them came from foreign countries. Altogether, businessmen from 70 countries attended. It is our hope that the Fair to be held next year from May 30 to June 10, 1949, will be such as to attract a greater attendance from abroad -- both in exhibitors and buyers.

Gentlemen, in trying to sketch in the picture as I see it I have, I am afraid, used a good deal of purple. This was done deliberately. That there are difficulties cannot be denied, and I have not wanted to gloss over them. But there are also opportunities and let us not forget that we live in a land that is the envy of most of the rest of the world. Your Convention theme was, I repeat, well chosen -- "Exports -- our charge! -- our challenge!"
