



## STATEMENTS AND SPEECHES

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### "CANADIAN OUTLOOK -- 1957"

Speech by Mr. Donald M. Fleming, Minister of Finance of Canada, to the Canadian Society of New York, Friday, November 1, 1957, on the occasion of the Annual Maple Leaf Dinner of the Canadian Society.

I deem it a high honour to be invited to be your guest and speaker on the occasion of your Annual Maple Leaf Dinner. The Canadian Society of New York is well known and deservedly esteemed in Canada. It is fortunate for Canada that men with Canadian blood in their veins and the love of Canada in their hearts should have founded this Society in 1896 for the two-fold purpose of fostering understanding and promoting friendship between Canada and the United States and also to provide assistance to any worthy Canadians in New York who may have fallen into straitened circumstances. I am glad to know that the latter phase of the Society's activities has imposed little or no burden upon its members.

Since a large proportion of your membership is drawn from leaders in the banking and investment business of this great metropolis, I have chosen for my remarks a theme touching on the economic life of Canada and in particular Canadian economic relations with the United States of America. My subject is "Canadian Outlook - 1957".

#### March to Full Nationhood

As the world measures time, Canada is a young nation. But ninety years ago the Dominion came into being. It was then a confederation of only four provinces; today it spans the north half of this continent and embraces ten provinces. Its march to the west, to the north and last of all to the east, with the accession of Newfoundland in 1949, was not achieved without the expenditure of blood, toil, sweat and tears. It is a proud record of statesmanship, vision and courage. It compares with any record of nation-building in history.

Two great races linked together their loyalties and labours to build this nation. Enemies of old, they have achieved a common destiny on the broad, fair soil of Canada and have given to her the incomparably rich heritage of two cultures. Intolerance and enmity would have denied Canada this destiny; good will triumphed over these divisive forces. Canada owes its creation and existence as a nation to the spirit of tolerance and mutual respect among men of different tongues, cultures and creeds. Unity and uniformity are not the same thing, and Canadian unity is not and never will be based upon uniformity.

With these two principal racial strains has been mingled in more recent times the blood of men from many other lands. The Canadian family has been strengthened by their inclusion; the Canadian culture has been enriched by their contributions.

The march of Canada to full nationhood is as notable a record as her physical march to expanding frontiers. Her assumption of the attributes of nationhood reached its climax when in 1919 the wartime Prime Minister, Sir Robert Borden, signed the Treaty of Versailles on behalf of His Majesty in the name of Canada. It was the first time that Canada had entered into an international treaty in her own right and her own name. It is said that as Sir Robert signed that historic document his eyes filled with tears and he remarked that he felt that he was signing the treaty in the blood of 60,000 young Canadians who had given their lives in the Great War.

From that point forward Canada has gone forward to achieve an ever-increasing measure of recognition in the eyes of the world. To this end have contributed various factors — her resources, the part she has played in the evolution of the Commonwealth of Nations, her close relationships with the United States of America and the fact that historically she has had nothing to live down. The world's recognition has given Canada great opportunities. It has also brought to her vast challenges.

Considering their relatively small population Canadians are an outward-looking people to a degree not exceeded by any other nation in this hemisphere. The fact that we are a young nation has not meant that we are an immature people. Our external policy is built upon four bases — our memberships in the Commonwealth of Nations, the United Nations and NATO, and our very close, almost unique, relationship with the United States of America. Our attachment to these four bases is strong and solid. Withal, Canadians are a sturdy, self-reliant people who cherish their independence.

The Canadian population today numbers 16½ million. In geographical extent we are the second largest country in the world. In our soil is a vast storehouse of nature's bounty. What appeared some years ago to be gaps in Canada's natural endowment have been filled in over-flowing measure by the discovery in recent years of vast deposits of oil, natural gas and iron ore. We possess in abundance the five known sources of energy: water power, coal, oil, natural gas, uranium. We are a major world supplier of forest products and metals. Canada produces over 90 per cent of the world's supply of nickel. We are blessed with tremendous resources of copper, lead, zinc, asbestos, uranium, titanium and other much-sought metals. Nature has been good to us. The opportunity to develop these resources is a challenge to Canadians of this generation and will likewise be a challenge to generations yet unborn.

I would not have you think that we have no troubles. No land in this imperfect world could pass through Canada's experience of development without growing-pains. I have no intention of ignoring these problems or their causes. Indeed, I shall avail myself of the opportunity of speaking frankly of them tonight. I indicated earlier that in these remarks I would speak of Canada's economic relations with the United States. It is one of the blessings of the extraordinary and cordial relations which exist between Canada and the United States that we can speak to each other in the most candid terms, without endangering, not to say rupturing, good relations between us and our sense of mutual confidence. Opportunities of this kind are given only to those who are the best neighbours in the world.

#### Relations with United States

Respecting economic relations between Canada and the United States I do not wish to weary you with platitudes. Let me, however, set in perspective what I shall later say by declaring the recognition and appreciation by the Canadian people of the manner in which the United States has risen to the tests, the exactions, as well as the challenge of world leadership. The generosity of this nation in sustaining other nations in these post-war years is without parallel in history. I traversed free Europe in 1948. What I saw there left no room for doubt that Marshall Plan aid saved Western Europe.

We are your allies in NATO. Canadian forces in the Second World War were proud to serve under the supreme command of that great man who is today the President of this nation. Canadian forces served side by side with United States forces in Korea under a Supreme United Nations Commander who was an American. Canadian forces are today standing on guard side by side with the forces of the United States in Europe under the supreme command of the NATO Commander-in-Chief who is an American. Recently the new Canadian Government and the United States Administration took a major step

in the unification of the air defence of this continent in the creation of a Joint Air Command, with an American in command and a distinguished Canadian Air Marshal as his deputy. This most significant decision is indicative of our confidence in the American nation and our recognition of our interdependence.

In the same spirit we hail the joint statement issued in Washington last week by President Eisenhower and Prime Minister Macmillan. We welcome it as a recognition of the interdependence of the free nations. In the kind of world in which we live no one country, however strong, can now stand alone. We salute the growing understanding evidenced between this country and the United Kingdom. The free West has had reason to feel insecure in the face of misunderstandings in past years. The growing proof of renewed solidarity augurs well for freedom. It will not be easy to achieve or maintain scientific superiority without a mingling of effort and understanding on the part of the United States, the United Kingdom, Canada and other faithful allies.

To this gratifying rapprochement between the United States and the United Kingdom I am sure the recent visit of Her Majesty the Queen has made a formidable and lasting contribution. Her Canadian subjects are completely devoted to her. She captured the love and loyalty of the entire Canadian nation by her charm, by her stern sense of duty and by her complete devotion to her people. It is a notable fact, not to be overlooked, that her visit to this country was in her capacity as Queen of Canada.

#### Trade Problems

I said I would not deny the existence of problems facing Canada. I said I would be frank in speaking of relations between Canada and the United States. Let me now proceed to speak of less agreeable facts.

Canadians are a trading people. In absolute volume, we are the fourth trading nation in the world, ranking only after the United States, the United Kingdom and West Germany. Per capita, Canadians have probably a larger share of the external trade of the world than any other nation. In volume, our external trade is running at approximately ten and a half billion dollars per annum. This remarkable achievement of 16½ million people, however, does not hide serious weaknesses in our trading position. Of that 10½ billion dollars of annual external trade, 7 billion dollars of it is done with one nation, the United States. To a disquieting degree Canada has placed her trading eggs in one basket. For years 73 per cent of Canada's imports from the world have come from the United States while 60 per cent of our exports have gone to the United States. By comparison, with our next largest customer, the United Kingdom, we do only about 14 per cent of our total external trade. From her we are purchasing approximately 10 per cent of our

imports; to her we sell approximately 18 per cent of our exports. The Canadian economy has to a dangerous degree been made vulnerable to sudden changes in the economic climate of the United States and trading policy at Washington.

Another serious weakness in Canada's trading position is our heavy imbalance in commodity trade. Last year Canada incurred a deficit of \$848 million in her commodity trade with the world. This was due entirely to a huge imbalance in our commodity trade with the United States. Last year Canada purchased \$4,167 million worth of goods from the United States but the United States purchased from Canada only \$2,819 million worth of goods. Thus, on commodity trade with the United States, Canada incurred a deficit of \$1,348 million. It is true that part of this amount represented the import of capital goods into Canada and that these will swell Canadian production. This fact, however, cannot hide a chronic condition of imbalance of trading between these two countries with the selling advantage resting always with the United States.

I have spoken of commodity trade. If one looks at the entire current account the situation is even worse. In 1956, on current account transactions, Canada incurred a deficit of \$1,640 million with the United States. The prospect for 1957 is for an even larger deficit for Canada. In the first six months of 1957, Canada's current account deficit with the United States amounted to \$1,003 million.

Canada is by far the best customer of the United States. Last year the United States sold to Canada approximately the same amount as it sold to all Western Continental Europe; more than it sold to all Latin America combined; nearly double what it sold to the whole sterling area, including the United Kingdom. I would not argue that trade could or should be balanced bilaterally; indeed, Canada itself has always had substantial surpluses in its trade with some countries and deficits in its trade with others. I do contend, however, that, in the face of the large advantages which the United States derives from its trade with Canada, the United States has a special responsibility not to damage Canadian export opportunities and to adopt an understanding attitude in cases where Canadian policies touch particular United States interests adversely.

I would argue, furthermore, that the United States ought to modify policies which impede Canadian sales to the United States. Canada's purchases from the United States to a considerable measure comprise finished manufactured goods. The nature of the United States tariff, however, not unlike others, is such as to discourage the importation of finished products. Much of the total of Canada's sales to the United States consists of raw industrial materials. While we Canadians are glad to have a market in the United States for much of our surplus production of industrial raw materials, we are not content merely to dig these materials out of our soil for export to other countries to be fabricated there

into finished products, many of which we are then invited to buy back. We should like to see the United States Administration and Congress take serious account of the heavy imbalance of the trade between these two countries and also of the way in which United States policies are excluding Canadian finished products from the United States market.

I would not wish to leave the impression that the United States freely admits all our raw products. Our Canadian farmers have been hurt by United States restrictions of imports of Canadian wheat, flour, rye, cheddar cheese, dried skimmed milk, dried buttermilk, flaxseed and linseed oil. It is not long ago that the United States restricted also imports of our barley, barley malt and oats. Now we are faced with the threat of increased United States tariffs against our zinc and lead. Canadians cannot fail to be deeply disturbed at this prospect.

It is true that in self-defence we have had to protect Canadian producers of a limited list of agricultural products from imports that threatened their livelihood, but there is such a vast difference in the size of the economies of the two countries that the disruption of traditional trading channels has a much more severe effect on Canada than the United States.

The trade between Canada and the United States is the largest carried on between any two countries in the world. It means much more to Canada than it does to the United States. In total that trade is the equivalent of 22 per cent of the gross national product of Canada; it is less than 2 per cent of the gross national product of the United States. It is understandable, therefore, that the trade between the two countries should appear to Americans to be of less consequence than it appears to Canadians. By the same token the United States, by adverse trade policies, can harm Canada much more than Canada can harm the United States by pursuing policies adverse to United States interests. May we not hope that by co-operation and consultation we can together find some better way of meeting our very real farm problems than by following any "beggar-my-neighbour" policies.

In the light of the facts I have mentioned and to remedy the basic weaknesses in the Canadian trade position we are seeking to expand trade with the United Kingdom and to purchase where economically possible from Commonwealth sources goods now imported from the United States. We consider that the facts of the situation and the policies followed by Washington impose this course upon us.

#### Surplus Disposal Policies

I said that I contend that the United States has a special responsibility not to damage Canadian export opportunities abroad. The fact is, however, that the agricultural products surplus disposal programme of the United States has very seriously damaged Canadian trading interests and disorganized normal marketing. The Canadian Government is compelled to take a very serious view of

these results and the policies which have created them. At the recent meeting in Washington of representatives of the governments of both countries, we were obliged to register a strong protest against these policies. The United States Administration gave the Canadian Ministers assurances that in all surplus disposal activities they intend to avoid so far as possible interfering with normal commercial marketings and that the barter programme will hereafter be limited. While appreciating these assurances, the Canadian Government, however, is far from satisfied, and will continue to regard with an anxious and apprehensive eye fire-sale disposal policies. We regard them as a breach of both the letter and the spirit of the General Agreement on Tariffs and Trade.

### U. S. Investment in Canada

I turn now to a subject upon which a certain degree of misunderstanding appears to have existed in the United States. It concerns the attitude of the Canadian Government with respect to foreign investment in Canada.

Canada is currently the world's largest importer of capital. Canada needs capital to develop our resources. Capital from abroad has not been slow to see and grasp the glowing opportunities offered for investment in the development of Canada's resources. Foreign capital has been entering Canada this year in record volume: The United States has been the principal contributor, but Great Britain, Western Germany, and other countries have also been swelling the total. Canada's net indebtedness to foreign investors now exceeds ten billion dollars. Gross investment in Canada from abroad exceeds fifteen billion dollars. Nearly twelve billion dollars of this total is owned in the United States. Approximately 2 3/4 billion dollars is owned in the United Kingdom, and over one billion dollars in other countries, chiefly Western Europe.

We welcome the investment of capital from abroad. We recognize the important role which has been played by capital from abroad in the development of our resources and also in maintaining the momentum of the Canadian economy. As firm believers in the free enterprise system we intend to continue to create a climate favourable to investment from abroad.

It would be quite impossible to sustain the heavy commodity import deficit which Canada is now incurring in its trade with the United States were it not for the heavy inflow of American capital into Canada. We have been asked to regard this capital inflow as "offsetting" the deficit in our trade with the United States. This argument overlooks the fact that in the course of this type of exchange we Canadians are increasing the mortgage upon our assets.

It is with regret that I say to you that the policies followed by some American investors in Canada have given rise to strong feelings of irritation. Many, perhaps even most, American

corporations which have invested in Canada have made a genuine and successful effort to be Canadian and to act in that spirit, but there are many others which through either thoughtlessness or for other reasons, and in some cases perhaps as a result of deliberate policy, have created Canadian resentment. I refer in particular to the policy of some very large United States corporations of establishing subsidiaries in Canada and denying to Canadians any opportunity whatever of participating in the ownership of stock in such companies, especially when they are engaged on a large scale in the development of Canadian resources. We have sought by the creation of tax inducements to encourage such corporations to admit investment by Canadians in the stock of these Canadian corporations. We often hear complaints as well that in such relationships the United States parent corporation often excludes the Canadian corporation from selling its products in certain markets and controls the purchasing policies of the Canadian subsidiary in a manner which consciously diverts its buying away from Canadian sources. We also hear complaints that inadequate efforts are made to train Canadians for advancement to executive status, and that the Canadian subsidiaries are also sometimes unnecessarily discouraged from engaging in research. These policies of which Canadians complain cannot be cured by any action on the part of the United States Administration. Indeed, I am quite certain they are disapproved of by the Administration of this country. I bring them before you in the hope that in doing so we may assist American investors in understanding the feelings of Canadians in such matters. They are the same feelings as would be entertained by Americans if the positions were reversed. In the interests of good public relations more careful thought should be given to these aspects of investment and management policy.

### Conclusion

The coming months will be eventful for trading and economic relations between Canada and the United States. The Trade Agreements legislation will be coming before Congress for renewal. We shall also know the terms upon which the General Agreement on Tariffs and Trade can be renewed. I do not need to tell you that Canada will be watching the development of policy at Washington with the closest possible interest.

I have spoken frankly, as only friends can do. It is because Canadian trade and economic relations with the United States are so important to us that I have laid such stress upon matters that give the Canadian Government and the Canadian people deep concern.

These two countries have a responsibility to be an example to the world. They cannot fail in their common duty to build bridges of understanding and good will. We Canadians give our testimony to the world that we are the free and willing allies



of the United States. We respect each other. As governments we do not attempt to interfere with each other. We talk together as neighbours in the friendliest spirit and the frankest terms. Let us bend our united endeavours to remove as far as possible source of irritation between us.

We Canadians are mindful of the gigantic burdens of world leadership borne by the United States. We wish to see this nation strong, ready, and able to meet the tasks and burdens which destiny and the cause of freedom have laid upon her. In Canada she will always find a staunch, co-operative and understanding friend.

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