



# STATEMENTS AND SPEECHES

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An address by the Canadian Ambassador to the United States, Mr. A.D.P. Heeney, to the Investment Bankers Association Convocation, at Hollywood, Florida, December 2, 1954.

In the exuberant atmosphere of this part of the United States, a speaker might perhaps be forgiven some excess of enthusiasm - even exaggeration. The temptation for me is almost irresistible, not only because I am in Florida for the first time, but because I am going to speak to you about Canada. The story of the development of Canadian resources since the end of the War has been so studded with dramatic events that its telling seems almost to compel some excitement of tone. At practically the same moment in 1947, for example, discoveries were made at widely separated points in Canada of large deposits of petroleum and iron ore. These, when fully exploited, will, I am told, make Canada independent of outside sources of supply in these two basic commodities. There has been at least equal drama in the creation of what will be, when it is completed, the largest aluminium plant in the world - and this up the coast of British Columbia at a distance of almost five hundred miles from the nearest settled community. The frontier of Canada has been rolled further and further north by these events and by the hunt that is still in its early stages for the most precious metal of all - uranium.

But with these few reminders of how rapid has been the pace of Canada's economic development during the past ten years, I must curb my enthusiasm. If I were to continue in that vein, I am afraid that you might find a visit to Canada disappointing. Even as you were being driven in from the airport at Montreal or Toronto along miles of modest homes (not all of them with television masts), you might begin to suspect that you had been misled. You might guess - and guess right - that few of these people are in any frenzy of excitement over the latest moves in uranium stocks. You would not find the air laden with speculative fever. The year is 1954 - not 1929. There is no delirious search for the Black Tulip. Our flowers are of the common or garden variety. And if the garden we have to cultivate covers half a continent, Canadians see no reason why they should not go about

the task in a matter of fact way. If you were to lunch in one of the solemn clubs where your St. James' or Bay Street colleagues gather, you would, I think, soon observe - having already noted that neither of these streets of ours is paved with gold - that, for the most part, the men about you seemed cautious and reserved, perhaps even rather staid.

The fact is that in spite of the exciting developments that are taking place in Canada, most Canadians consider themselves to be members of a highly sober race. As is perhaps natural with a young and growing country, we in Canada have, in recent years, indulged in a good deal of self-questioning. And all the analysts who have applied their talents to examining our society seem agreed that we lack something of colour, what our French-speaking compatriots call "panache". Notwithstanding the scarlet coats of the Mounties, our public ceremonies, although certainly not lacking in dignity and form, would seem pretty modest and muted to a Hollywood producer. We are shy of display and of extremes. We may deny the criticism that we are stifled with respectability. But we must, I think, admit that something of the chill rigour of our northern skies tinctures our bloodstream as well and tempers it to sobriety.

That characteristic of sober good sense is, I believe, reflected in the conduct of our national affairs. We have, for example, accepted with remarkably little fuss or controversy, the responsibility to share in the collective defence of the free world. I sometimes think that, if the substantial overseas commitments that Canada has assumed in recent years had caused more internal difficulty and debate, it would perhaps be more widely known in this country that we have a complete air division - twelve squadrons of front-line jet fighters - stationed in Europe as well as an infantry brigade group and that on the other side of the world we contributed another brigade group to the fighting in Korea.

In a sense I suppose that the Canadian Ambassador in Washington represents Canadians of all parties. It would, therefore, be inappropriate for me to suggest that Canada has been governed soberly and responsibly. But since my own experience in the Canadian Government Service has not been primarily with financial affairs, I think I might be permitted to express the opinion that no country has been able to call on the services of more skilled and seasoned experts than we have had in the Department of Finance, the Bank of Canada and the other financial agencies of the government. They have been ready to assess the value of new economic doctrine and, I think it may be said, have made their own original contributions as well. But, at the same time, they have been conservative in placing high importance on monetary and fiscal methods of influencing the economy and in their conviction that essential considerations of human welfare have not made obsolete the major principles of the classical economists.

The task of our financial officials has been made easier because of some of the habits of our people. Last year Canadians saved more than 8 per cent of their disposable personal income; and total national savings amounted to approximately 20 per cent of the gross national product. As a result, we have been able to finance from domestic sources some 75 per cent both of the net and gross capital formation in Canada - only the remaining 25 per cent being financed directly from non-resident sources. At the same time, of course, Canadians themselves have been investing abroad. It may perhaps come as something of a surprise to you to learn that, per capita, Canadian investment in the United States is much greater than United States investment in Canada. In 1953 United States per capita long term investment in Canada amounted to \$52; Canadian per capita long term investment in the United States amounted to \$133. If account is taken of all Canadian investment abroad, it is accurate to say that Canadian sources of saving in the post-War period were large enough to finance all but 4 per cent of the net capital formation in Canada and all but 9 per cent of the gross capital formation.

I imagine that the sobriety which expresses itself in thrifty self-dependence in the financing of our economic development and in a sense of responsibility in the handling of our domestic and international affairs has had a good deal to do with the inflow of United States capital to Canada in recent years. Certainly the volume of that flow has been remarkable. United States investment in Canada increased by more than \$3½ billions from the end of 1945 to the end of 1953. Last year alone it increased by more than \$600 millions to reach a total of \$8,600 millions.

Since remarks on this subject may seem to lack authority unless they are strongly laced with statistics, I should perhaps go on and give you some idea of how that increment was made up. The largest part of it took the form of direct United States investment in new ventures in Canada and in branch plants. During 1953 United States direct investment in Canada reached a record of \$330 millions. You may also be interested to know that, from 1946 to 1953, 307 United States firms established branches in Canada. New Canadian issues also accounted for a large slice of the capital inflow from the United States last year. The value of new issues sold in the United States amounted to \$329 millions. Such flotations have now tapered off, largely no doubt because the gap between Canadian and United States interest rates has narrowed. In some years portfolio transactions between the United States and Canada in outstanding securities have resulted in a considerable net inflow. But last year the tide was running in the opposite direction. During the first quarter of 1954 United States buying of Canadian stocks and shares again rose sharply and the demand is continuing to be strong, buoyed particularly by the operation of United States investment trusts.

From time to time, problems are created for us in Canada by this heavy flow of capital from the United States. Nevertheless, we welcome it, because we realize that without it our economic development would have to progress at a slower rate. On the other hand, we do not consider that such capital movements can ever be a satisfactory substitute for a stable trade balance. Last year, Canada had a trade deficit with the United States of approximately \$750 millions and an overall deficit on current account of approximately \$440 millions. The deficit was covered by capital inflow. That method of balancing our international accounts is, however, less satisfactory than a balance produced by our export trade. Inevitably a balance dependent on capital movements leaves some residue of worry in Canadian minds about what our position would be if the inflow were to dwindle or dry up.

Much has been written recently about the necessity, as United States foreign aid comes to an end, for underdeveloped countries or countries in the process of development to create a domestic climate that will attract foreign, and principally American, investment. Less has been said about the corollary that overseas countries will be reluctant to welcome dollar investment unless they can see a fair prospect of ultimately earning an increased volume of dollars from the United States. That consideration is all the more pertinent at a time when United States receipts in the form of interest, dividends and other private investment returns substantially exceed new investments being placed abroad. Last year, for example, returns of all kinds on United States private investment abroad exceeded by approximately a billion dollars the fresh outflow of private capital during the same period.

We in Canada have managed to keep our domestic economy in trim, as the heavy flow of United States funds, I think, bears witness. As a result, we are, no doubt, in a better position than many other countries to urge that a readier acceptance by the United States of foreign imports must go hand in hand with dollar investment abroad. There is such a wide demand for the basic commodities we produce in Canada that we can be confident that - in the long run - they can be marketed, and on satisfactory terms. That is not true, however, of many another country. And even we in Canada cannot afford to slacken for a moment our vigilant concern over our export prospects. Foreign trade is the very lifeblood of our national economy and our national well-being, accounting as it does for more than 20 per cent of our total production.

Nor can those who have an interest in investment in Canada be indifferent, I suggest, to Canadian trade. The vast bulk of the direct United States investment in Canada is being channeled to our resource industries. It is going to develop our oilfields and our deposits of iron ore and to increase our production of non-ferrous metals. I need hardly point out that all these commodities enter very substantially into our foreign trade. And some of these

are threatened with United States import restrictions. It is true that during the last twenty years Canadian production has become much more diversified. But it is also true that our foreign trade is still largely made up of the export of a comparatively few staple commodities. Our principal exports are still wheat, newsprint, lumber, non-ferrous metals; and we hope that before long iron ore and petroleum and natural gas will be added to that list. The economic development that has been taking place in Canada will be a success for those who have helped to finance it - and for Canada - only if reliable markets can be found, particularly in the United States, for the natural resources that are now being exploited. For that reason, those of you who have invested in Canada have a common interest with Canadians. The dollars you have sent across the border will be able to do their work only if Canada can continue to trade freely with the United States. Whether or not Americans realize it, they have acquired an important stake in the future of Canada's foreign trade.

During the past year we in Canada have been disturbed by the restrictions that have been imposed by the United States against some of our exports and by the clamour there has been for even further restrictions. So far, the only commodities to be affected have been certain of our agricultural exports. But other commodities seem threatened. In the light of the decision announced on the 20th of August, for example, the future market in the United States for Canadian lead and zinc remains uncertain. As you know, there has also been difficulty in making arrangements to export to this country the natural gas that is becoming available as our oilfields are opened up. I know and acknowledge what efforts have been made by your government to avoid restrictions on Canadian imports and to mitigate the consequences for Canada's trade when new restrictions were held to be unavoidable. Nevertheless, the increasing difficulties that we have experienced in trying to sell Canadian commodities in this country inevitably cause us great concern.

These developments have been more disturbing at a time when we had hoped that the United States would be able to take some action to bring its commercial policy more into accord with its position as the world's strongest creditor. We fully appreciated that some time would be needed for these issues to be debated and we understood the reasons why yet another Commission should be appointed to consider them. When the Commission on Foreign Economic Policy submitted its recommendations to the President, we thought that these constituted a move in the right direction and hoped that they would be implemented without delay. We now earnestly trust that some progress will be made at the forthcoming session of Congress to translate them into law. If the event proves otherwise, there will be further disappointment - and I fear pretty wide disillusionment - in my country.

It seems to me that the need for action has been made more imperative by changing circumstances. For the time being, the situation favours a broad movement towards the restoration of a free and multilateral

system of trade and payments. But this may change and these favourable conditions vanish if advantage of them is not taken for constructive action on a world-wide scale. Throughout the sterling area and in Western Europe it is now better appreciated than at any time since the end of the War that deficit countries have a responsibility to pursue sound domestic measures - sometimes of an unpopular kind - as their contribution toward the establishment of a stable international economy. Over considerable opposition, these views seem now to have gained the ascendancy in all the countries concerned. And, if there is not some convincing evidence before long that the United States is slowly but surely moving towards a more liberal trade policy, it seems to us that the balance of opinion may well be reversed. We in Canada believe that it would be a major defeat for the free world if this opportunity to create a more satisfactory economic system between the nations were lost.

Most of the issues involved are now under discussion in Geneva at the session to review the General Agreement on Tariffs and Trade. From the very beginning the Canadian Government have attached great importance to that international instrument, in the belief that a code of commercial conduct, even an imperfect one, was essential to an orderly system of international trade. We in Canada, like you in the United States, have regretted that exchange difficulties in many parts of the world have prevented the General Agreement from being applied with full strictness and full success. The present review session provides an opportunity, however, to strengthen the Agreement, especially in its crucial balance-of-payments clauses. And the removal or alleviation of exchange difficulties in many countries suggests that an effort of that kind would be timely. Obviously, however, such an effort will not succeed if the United States is, for one reason or another, inhibited from playing a role of effective leadership. The Canadian Government still hope that the United States will be able to join in making the Agreement stronger rather than weaker as an instrument to regulate international trade.

That these discussions in Geneva are taking place in a wide forum and on a multilateral scale seems to us altogether proper. For, although I have stressed the importance to Canada of its trade with the United States, your market, however large and however freely we may be allowed to enter it, can hardly be expected to provide adequate scope for our traders. Some of the commodities we produce in greatest volume - wheat, for example - are traditionally exported to other parts of the world and could never be absorbed in this country. For that practical reason, if for no other, we in Canada are obliged to try to see the problems of trade and investment throughout the free world as a whole and not allow them to be fragmented into a number of regional categories. I need hardly add that in our opinion any global appraisal leads quickly to the conclusion that, if an enduring structural balance is to be created in international trade and payments, the United States must gradually be willing to take more and more imports.

We appreciate that in an economy so large, so expansive, and so comparatively self-contained as the United States, many other economic adjustments can lead more directly, and certainly more visibly, to a reduction in costs than some modest reductions in protection. In this country, therefore, the classical argument for freer trade can hardly be expected to awaken such a ready response as it does in countries which are more dependent on foreign trade and whose peoples realize that their real income is greatly affected by the cost of imported commodities.

Nevertheless, I think that that argument for freer trade is not without relevance even in the United States. And, in any case, there is an argument of a quite different, and nowadays more important, kind that points in the same direction. If Americans have difficulty in seeing that some further application to their foreign trade of the principles of Adam Smith would increase the opulence of their country (to use his terms), it must be increasingly apparent to all of us in North America that freer trade would contribute substantially to the security of the United States. This great nation is now at the head of a wide coalition and your allies are to be found in all parts of the free world. Some of these allies of yours are situated right up against the out-works of the Communist empire which threatens us all. Without exception all of them need to keep the fabric of their economic and social life strong. Otherwise their people will not be able to resist the blandishments of Communist propaganda and they will not be able to play their part in maintaining the military strength of the free world. They will be able to develop and preserve sound and hopeful economic conditions within their own borders only if they can depend on earning the foreign exchange they must have to meet their import requirements and their other external obligations. Because of the strong creditor position of this country and the wide demand for your products, the exchange resources that must command primary attention from most countries are United States dollars. The out-flow of dollars from the United States - and, I should add, to a lesser extent, from Canada - should therefore be regarded as of far more than mere commercial or economic importance. To members of the alliance which you lead it represents an indispensable element in the common defence. The commodities shipped to you by your friends and allies are indeed much more than they seem. They are nothing less than a necessity for survival.

We in Canada have watched with admiration the way you Americans have shouldered the responsibilities that have been thrust on you for leadership in the free world. We are confident that when you realize that the great cause you must sustain requires that you open your doors more freely to the goods produced in other countries, you will accept that responsibility as well as all the others which you are now so courageously discharging.