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TRENDS IN CANADA'S TRADE AND TARIFF POLICY

An address by Mr. D.C. Abbott, Minister of Finance, delivered to the Annual Meeting of the Canadian Section of the International Chamber of Commerce, in Montreal, on February 9, 1950.

I am particularly pleased with the invitation to be your guest speaker today. The work of your organization is well known to all of us in Ottawa. It has had, and I venture to say it will continue to have, a sound and far-reaching influence on the policies of national and international bodies in the field of foreign commerce.

As I understand your programme, it seems to me that there is a great similarity between the aims of your organization and the policies of the Canadian Government in the promotion of expanding world trade. The Canadian Government is pursuing a policy, as you are, of endeavouring to achieve a high level of multilateral trade over as broad an area as possible, within the framework of our present institutions of free competitive enterprise. Since the end of the war, we have worked towards this goal in every aspect of our economic programmes, both domestic and foreign. Today I would like to talk to you about some of the things we have done and propose to do to help re-establish the type of trading world in which Canadians prosper.

In any discussion of trade policy, the question of tariffs used to occupy a most prominent place. This is not so true today. The reasons for this, I believe, reflect the unfortunate state of affairs in world trade. Not so long ago the tariff was the dominant instrument of commercial policy, but today it is only one technique, and often a minor technique, used by many Governments to influence their foreign trade. Although these techniques are more a symptom than a cause of present world trade difficulties, they indicate the degree to which the world has moved away from what we used to regard as normal trading practices. I believe that as we approach the re-establishment of a sounder trading world the tariff will again come to occupy a prominent role in commercial policy. While this is by no means a plea for tariffs as such, I think you will agree with me that the moderate use of the tariff is far less restrictive of world trade than these other practices which are in vogue today.

Canada is today the third most important trading nation -- on a per capita basis I believe it is the first. It is probably fair to say that few countries are more dependent on trade than we are. Moreover, this dependence is firmly rooted in the very nature of our natural resources and our industrial structure. Endowed with rich, though specialized, natural resources, and with a small population, the development

of Canadian industry was closely geared to foreign demand. Canada has a high standard of living because we have been able to concentrate on the production of the things which we produce efficiently and exchange them for a broad variety of goods which we could not produce at all or at much higher cost than other countries.

Given the basic features of our economic structure and the heavy dependence on trade, I believe that the only appropriate policy for Canada with respect to tariffs and other trade barriers is to get them down to reasonable levels and keep them down, both here and abroad. This does not mean free trade in the classical sense--but it does mean freer trade. I believe that the prosperity of Canada as well as other countries will be fostered, if by removing excessive trade barriers, countries will specialize in the production of the things they are good at and exchange them for the goods that other countries produce more cheaply. For this reason we must encourage by every means at our disposal policies and practices which make possible the broadest exchange of goods. Of course this means that we must in our own country practise what we preach. I think that Canada has in the main practised a reasonable and moderate tariff policy--with the exception of a short period during the Great Depression of the thirties.

I would like to recall that period--not because I feel that it will recur--but because it provides an outstanding example of the kind of tariff and trade policies which I am convinced we must avoid in the future. The disastrous decline in world trade and the breakdown in economic co-operation is a dreary story familiar to all of us. Each country tried to save itself at the expense of its neighbours, by restricting imports. Nations in turn, built up high tariff walls, introduced arbitrary methods of valuation, engaged in competitive dumping, and set up a maze of import controls. This series of beggar-thy-neighbour policies had a serious impact on all countries, but for a country like Canada, geared to export trade, the results were all but disastrous.

What did Canada do during this period? Canada was no exception to the general pattern. Partly in retaliation for the tariff increases elsewhere but also because of a faulty evaluation of its own interest, Canada pursued for a time a tariff policy which I feel intensified our difficulties during those trying times.

Canada took two main steps in the field of tariffs during this period. In 1930 and 1931 there were substantial increases in all tariffs. Then in 1932 we entered into exclusive Empire Trade Agreements which raised tariffs against foreign countries still further. The principle of a moderate tariff designed to give moderate protection to Canadian manufacturing industries in order to promote industrial development, and to provide a bargaining device to gain concessions abroad, gave way to high tariffs frankly aimed at limiting imports to non-competitive goods. This device to use the tariff as an instrument for stimulating domestic employment and investment through the exclusion of imports was essentially an effort to hoist the Canadian economy by its own bootstraps. Since it did not take into consideration the needs of the basic primary industries of this country, it was doomed to failure. Some industries may have benefited. But for the country as a whole employment slumped even further

and investment remained in a depressed condition. For those who may still believe that Canada can isolate itself and prosper, the experience of the early 'thirties provides more than adequate evidence of the unfortunate consequences of such a policy. Canada cannot live unto itself alone and hope to maintain anything like its present living standards.

The Empire Trade Agreements of 1932 were designed to mitigate some of the handicaps suffered by the export industries as a result of the restriction of trade in other directions. While these attempts to secure exclusive outlets in the Commonwealth were in part effective, I believe that they were too rigid and too short-sighted. They failed to recognize that no one market can provide adequate outlets for Canadian production.

In 1935, the then Prime Minister, Mr. Mackenzie King, enunciated the policy that Canada should "promote trade with all nations and negotiate trade agreements with any country willing to trade with Canada on a reciprocal basis." The fulfilment of that purpose has been a consistent feature of Canada's tariff policy to this day.

In the few years before the outbreak of war a number of important trade agreements were successfully concluded which greatly expanded the markets for our exports and had the effect of reducing our tariff on both British and foreign goods very sharply from the extreme levels of 1930-1935. The most important of these were the two agreements negotiated with the United States in 1935 and in 1938 and the agreement with the United Kingdom negotiated in 1937. The 1935 agreement was the first real reconciliation with the United States on commercial matters since the end of Reciprocity in 1866. It marked the beginning of a new era of economic co-operation between ourselves and our great neighbour to the South.

The 1938 negotiations were really a three-way arrangement between Canada, the United States and the United Kingdom. Canada as a half-way house between her two great trading partners, with important interests in both areas, sometimes played the role of conciliator and interpreter-- a role which was to become increasingly important both during the war and in the post-war years. The successful conclusion of the 1938 agreements proved that growing trade relations between Canada and the United States are not inconsistent with the promotion of greater trade with the Commonwealth.

In Europe, however, commercial relations were developing along less satisfactory lines. Under the threat of war new devices to control trade, more ingenious and more restrictive than ever before, were introduced. The system of relatively open markets based on commercial considerations disappeared from a large part of the world.

Of the war period itself I need only say that whatever was left of normal trading relations gave way to special arrangements designed to serve the prosecution of the war. There was, however, a firm determination to work for a postwar trading system which would avoid the errors of the 'thirties. As early as 1942 Canada joined with the United States and the United Kingdom in an undertaking "open to all countries of like mind, for the reduction of tariff and other trade barriers, and the elimination of discriminatory treatment

in international trade." The successful negotiation of the General Agreement on Tariffs and Trade in the fall of 1947 was an important step along the road to the fulfilment of this undertaking. Since this multilateral agreement is by far the most significant tariff action taken since the end of the war, I want to say a word about it.

The history of the Geneva Agreement is closely related to the project for an International Trade Organization. In April of 1947 the principal trading nations of the world gathered at Geneva, under the auspices of the United Nations to do two things. Firstly, they completed the draft of a Trade Charter for submission to the Havana World Conference. Secondly, they negotiated with one another for the mutual reduction of tariff and other trade barriers. Nothing like this had ever been tried before in the history of commercial relations. Twenty-three countries which account for over 80 per cent of world trade took part in this Conference. The tariff schedules which emerged contain more than 45,000 tariff concessions. Under the most-favoured-nation principle each participating country received the benefit of all the tariff concessions as a contractual right.

The commercial provisions of the Agreement, although complex and detailed, are really based on a few simple principles which conform rather closely to the long established principles of commercial policy practised in Canada. While their full implementation was not expected immediately they do, however, represent a set of agreed objectives providing for the kind of trading world we would like to see.

I want to emphasize, however, that the Geneva Agreement is not merely a hope for the future. As far as Canada is concerned, we are already deriving substantial benefits. For us the Geneva Agreement is a particularly gratifying achievement because it confirms on a world scale the objectives towards which our trade policies have been steadily directed for many years. From an immediate and practical point of view its chief importance for us is to be found in the tariff concessions, especially those made by the United States. I think it is fair to say that the United States market was broadened to us by the Geneva Agreement to an extent greater than had ever been achieved in the past, and we have already received substantial benefits in terms of increased exports to that market. In 1949 Canadian exports to the United States reached the highest level in our history--even exceeding the wartime record when the special Hyde Park arrangement was in operation.

No discussion of Canadian trade and tariff policy would be complete without reference to the emergency measures which we were compelled to adopt in 1947. At a time when we had made an important step towards the goal of freer trade other forces were at work which compelled us to take a sharp detour.

You will recall the circumstances that led to our exchange difficulties in 1947. Our overseas customers had emerged from the war in a weakened position. Their import needs were great, but their capacity to pay was limited. As part of our contribution to world recovery and in order to maintain our overseas markets, Canada extended substantial export credits. At the same time, boom conditions in Canada, and rising prices in the United States, swelled our imports to unprecedented heights. Since we were obliged to sell a

substantial part of our overseas exports on credit and pay cash for our imports Canadian exchange reserves fell from \$1,500 million at the end of 1945 to about \$500 million by November 1947.

On November 17, 1947 I announced a programme to safeguard our exchange reserves and to reduce the deficit in our balance of payments with the United States. The main emphasis was on positive measures to expand exports to dollar markets and encourage a more rapid development of our natural resources and productive capacity. But since these were essentially long-term measures, which could not be expected to yield immediate results the Government imposed a series of short-term emergency measures to halt the decline in our reserves. I promised then that the restrictive aspects of the programme would be relaxed as soon as the improvement in our exchange position made such relaxation possible.

More than two years have passed since the emergency measures were first imposed. You are familiar with the very substantial progress made during 1948 when our reserves went up from a dangerous low of \$461 million in December, 1947, to \$998 million in December, 1948. Consistent with this big improvement, I was able to announce a series of relaxations in that year. When I reviewed the developments for 1948, about this time last year, I said - "A continuation of present favourable trends will enable the Government to consider making further relaxations from time to time during 1949".

. As compared with the \$998 million level of our exchange reserves at the beginning of 1949, we entered 1950 with reserves at \$1,117 million, an increase of \$119 million. In the light of the difficult world trade situation this was a very satisfactory outcome and is a tribute to the remarkable adaptability of the Canadian economy to rapidly changing conditions.

The gratifying rise in our exports since 1947, particularly to dollar markets, has made it possible to add substantially to our exchange reserves and at the same time has enabled us to relax the restrictions progressively. In the early part of last year, a large number of prohibited imports were removed entirely from restriction and others were switched to the quotas. All the quotas were increased by roughly 25 per cent. Later in the year all controls on fresh fruits and vegetables were taken off. Yesterday I announced further relaxations to become effective in the second and third quarters of this year.

When these changes which I announced yesterday go into effect, the outright prohibitions will have been eliminated on all but a relatively small group of imports. In a little more than two years since the programme was introduced we have been able to reduce the effect of the restrictions by approximately one half. The time has not yet come when we are able to eliminate the restrictions completely but I think you will agree that we have made substantial progress towards this end.

In looking to the future I can only reiterate the promise I made when the emergency restrictions were first imposed. We intend to get back as soon as possible to more normal trade practices. This remains our basic goal. We

will continue every effort to move in this direction as rapidly as circumstances permit.

I know that you don't expect me to make any predictions regarding the level of our exchange reserves. The most important factor will, of course, be the level of our foreign trade, and in this field we will continue to be highly influenced by the rate of economic activity and the policies adopted in our major export markets.

The persistent lack of balance in trade between the sterling and dollar areas continues to be the underlying problem of world trade. The difficulties arising out of this imbalance inevitably have a pronounced effect upon our trade. Undoubtedly this situation requires us to make some readjustments.

In order to maintain our exports at the highest possible level we in Canada are continuing every effort to achieve a better balance in trade with the United Kingdom and other overseas countries by constructive methods of promoting imports from them. There is in this country a rich, diversified market receptive to British goods. The recent devaluation of the pound sterling should provide new incentives for United Kingdom producers to seek out dollar markets, and there is increasing evidence they are doing so. On our part, I feel we should do everything we can to facilitate their efforts. Here I want to pay tribute to the group of prominent Canadian businessmen, headed by Mr. J.S. Duncan, who are contributing so effectively to the important work being done by the Dollar Sterling Trade Board. A complete solution cannot be expected over night. We must endeavour to reach the position where the United Kingdom and other overseas countries, by expanding their dollar earnings, will be in a better position to pay for the goods they would like to buy in this country.

You are familiar, of course, with the recent cuts in British purchases and their effect on the immediate outlook for our exports to overseas markets. On the other hand, there is reason to expect that our exports to dollar markets, which now constitute our largest outlet, will be well maintained during the coming year. These trends will be reflected in our foreign exchange position. In this connection it is worth noting that exchange reserves showed rather marked fluctuations in the course of 1949. The upward movement which carried our reserves from \$998 million to \$1,067 million at the end of March reversed itself in the second quarter, declining to \$973 million by July 31. From this level they improved at an increasing rate and reached \$1,117 million by the end of the year. In part these movements were the result of seasonal influences, but I mention them because they are indicative of the swings, both upwards and downwards, which may be expected to occur in an economy in which foreign trade plays so large a part.

Despite our share of problems and uncertainties, and I have no desire to minimize them, nor do I think they should be over-emphasized--there are a great many reasons why Canada can look to the future with confidence. Ours is a young and growing economy. The unprecedented pace of industrial expansion and investment since the end of the war is beginning to bear fruit in terms of increased output and efficiency. This increased diversification allows us to produce more of the things we used to import and at the same time expand our exports.

I have been particularly heartened by recent examples of sales in dollar markets, including the United States, of manufactured goods which only a few years ago we did not produce at all, let alone sell in competition with American firms. More significant still are the recent discoveries of important natural resources. The rapid development of the oil industry in Alberta and the exploitation of iron ore in Labrador and Quebec are only a few examples of what I hope will mark a new era of economic expansion in Canada.

In the meantime we must keep our long-term objectives clearly before us. In this we can take heart in the farsighted efforts of our friends in the United States who have contributed so much to promote the economic recovery of Western Europe. I think too, that the growing recognition in that country of its great responsibilities as the leading industrial and creditor nation in the world will strengthen the leadership which it must give to the task of removing barriers to world trade.

We in Canada are continuing to seek a constructive approach to present trade problems by working out trade agreements on a wide basis. Last year, at the Annecy Trade Conference, we successfully concluded tariff agreements with ten additional countries. Next September, we will participate in a further round of tariff negotiations under the Geneva Agreement. At that time we will have an opportunity for further trade negotiations with the United States, the United Kingdom, and a large group of other important trading countries.

We are following a constructive and consistent trade policy directed at the kind of trading world towards which your group has also been working. I know that we can count on the support of your organization, and of you as Canadian businessmen, in the pursuit of these important objectives. Our continued co-operation in these efforts will promote the welfare of all Canadians.

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