



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 51/36 RECENT DEVELOPMENTS IN CANADA'S FOREIGN TRADE

An address by the Deputy Minister of Trade and Commerce, Mr. W.F. Bull, made to the Canadian Exporters Association, at Montreal, on September 20, 1951.

One of the most interesting and significant developments which has taken place in Canadian foreign trade in recent years has been the changing pattern of our exports. Canada has traditionally sold about 65 per cent of her exports in overseas markets, the other 35 per cent in the United States. In 1950, and so far into 1951, this pattern has been exactly reversed. The redirection of exports points up some of the profound changes which have taken place in the world economy since the Second World War.

How can we account for this changed pattern? In the first place it is a reflection of the power and expansiveness of the American economy. Secondly, since the increase in the United States buying is mostly in products of the forest and mine, it reflects the demand for raw materials and the depletion of United States natural resources. These resources were used up very rapidly in the United States during the Second World War. They have continued to be used up at almost as great a rate up to the present. Under these circumstances Americans have had to look increasingly to other countries for supplies of many of the materials which they were formerly able to produce in sufficient quantities in their own country. The impact of this American demand has been the primary reason for most of the recent large-scale resource development which has taken place in Canada. It is reasonable to expect that this American demand will continue and indeed be enlarged during the next few years providing the United States economy remains vigorous.

A third reason for the redirection of Canadian exports to the United States has been the lowering of American tariffs since the war. It is true that many of the Canadian materials exported to the United States (about two-thirds of our total exports to the United States on the eve of the Geneva tariff negotiations of 1947) have for many years entered the United States free of duty and only 33 per cent had to surmount the U.S. Tariff. At Geneva (1947), Annecy (1949) and Torquay (1951) the Canadian delegation to the General Agreement on Tariffs and Trade have been able to obtain further extensive reciprocal tariff concessions from the United States and we have also benefited by the concessions obtained by others. In 1950 about 42 per cent of the imports from Canada fell into the dutiable category. This reflects the diversification of American imports from Canada. It is also important to notice here that if a tariff rate is specific, i.e., applied to a unit of quantity, it is of decreasing consequence as prices rise. Almost all of the major tariff concessions which the United States is able to offer Canada and which the President is empowered to make under the Reciprocal Trade Agreements Act, as it now stands, have been granted. In these circumstances, the possibility of further tariff negotiations under the present

Presidential powers and in which Canada can play a useful part, is quite remote.

A final reason is the great effort which many Canadian exporters have made to get into the United States market when they were faced with declining sales in overseas countries. Although, as I have already mentioned, primary products account for the major increase in exports, nevertheless, the exports of secondary products to the United States have also increased substantially. This can be accounted for partly by the fact that Canadians are now processing many of their raw materials to a higher degree of manufacture than was the case before the Second World War. However, Canadian exports of manufactured goods have, on the whole, not increased commensurately with exports of primary materials. Many of our manufacturing industries have redirected their efforts towards the satisfaction of the needs of Canadian consumers rather than towards exports. It should be emphasized that a major reason for the high Canadian demand for domestic manufactured goods, is the Canadian prosperity which has resulted to a great extent from increased exports of primary and partly manufactured materials.

The fact that the United States was able to take much increased quantities of our goods at the time when overseas sales were declining is indeed fortunate for the well-being of the Canadian economy. Nevertheless, it is advisable that we attempt to develop greater diversification in our exports. Apart from the obvious danger of being overly-dependent upon one market, the United States is not now nor is it likely to be a satisfactory long-term market for such products as wheat, flour and manufactured goods. For this reason also the Canadian Government attaches great importance to overseas markets and has placed constant pressure on the British authorities for the relaxation of sterling area controls against dollar goods.

I believe that we should have clear minds on the future possibilities of exports of manufactured goods - particularly of those to the sterling area. Even if all restrictions against dollar goods were removed by the sterling area countries, I do not believe that we would quickly return to the quantitative level of exports of 1948, for example. The recent industrial development which has taken place in many overseas countries, including much of the sterling area, has been on a large scale. Australia, for example, has undergone industrial development only slightly less extensive than that of this country. Often this development has taken place under the protection afforded by exchange controls, import quotas and other restrictions. It seems likely, particularly in the countries where nationalism is strong, that this trend will be continued. Under such circumstances it is obvious that future Canadian exports of manufactured goods will be influenced by the extent of these changes. Further, we should remember that the high level of our immediate post-war exports to the sterling area was achieved largely because of the dislocation of the United Kingdom economy and its resultant inability to supply in sufficient quantity. This is not to be taken as a brief for the adoption of a do-nothing policy. The industrialization of our customers should actually lead to an expansion of Canadian export markets for components, equipment and basic materials, if we are allowed to compete.

Canadian manufactured goods are competitive in quality with those of most countries and where we can sell in reasonable volume many Canadian industries find that they can produce at competitive costs. It is a fundamental element of our commercial policy to continue to press for the right to compete in every part of the world.

The redirection which has taken place in exports is not matched on the whole by an equivalent redirection of imports. At present we are buying about 67 per cent of our imports from the United States as compared with 62 per cent just before the war. The reverse is, of course, also true. We are now buying about 33 per cent from the United Kingdom and other overseas countries as compared with 38 per cent before the war. We should gladly accept a larger proportion of our needed imports from overseas countries whenever they can be made available for us in larger quantities and in types suitable to our markets.

These shifts in the direction of Canadian exports and imports have helped solve the general balance of payments problem which faced Canada in the years immediately after the Second World War. We all remember the conditions with which we were confronted in those days. We had an urgent need of goods. We were unable to obtain them in sufficient quantity from any other country than the United States. Large proportions of our exports were going overseas. In these circumstances, we were forced to establish heavy deficits with the United States and draw down the large reserves which had been built up earlier. In the face of the non-convertibility of dollars and sterling it was apparent that Canada was required to achieve approximate balances in its accounts with its main trading partners. Otherwise we should have had recurrent excessive trade deficits with the United States. We sought to achieve a closer balance in our individual accounts with the help of import controls and the encouraging of imports from overseas. This policy of the Canadian Government was successful. Last year our trade deficit with the United States was only \$47 million, reduced from \$378 million in 1949. Similarly we had a surplus with the whole sterling area of only \$27 million last year, reduced from \$514 million in 1949. However, as we all know, this year we are running a much increased deficit with the United States and I will make reference to this in a few moments.

The Canadian Government is not satisfied with the present trade balance with the sterling area. We want to achieve balances at a high level of trade, and not to continue at the low levels which presently prevail with the sterling area. The balance which has been obtained with the sterling area is due much more to their restricting of imports from Canada than to their increasing of exports to this country. We have stressed with the British authorities, just as we have stressed with all other overseas countries, that we want to increase our imports from them. In recent months the difficulties surrounding the increasing of these imports have been intensified by the conflicting demands of rearmament, particularly in Britain. Even in these circumstances, however, we believe that the sterling countries can strengthen their own position in many ways be increased trade with Canada in both directions.

So far into 1951 the main limitation on Canadian exports of primary materials to overseas countries has been shortage of supply rather than shortage of exchange with which to pay for the goods. In the latter part of 1950, and in the first half of 1951, the United Kingdom drew up considerably increased contracts with Canadian producers for many commodities, particularly lumber, woodpulp, newsprint and metals. Shipments are now being made under these contracts so that this year Canadian exports to the United Kingdom and to other sterling area countries are higher than they were last year. This demand may abate somewhat as overseas stock-piles are built up. For example, quite a large proportion of the British purchases of Canadian lumber is going into stocks. Nevertheless as long as the world-wide shortage of Canadian raw materials continues we can expect the total demand for them to be considerably greater than it was in the first half of 1950, for example. On the other hand, we notice that Canadian exports of manufactured goods to the sterling area have shown no increase of any importance during this year as compared with last.

The British attitude towards imports from the dollar area depends primarily upon the state of the sterling area gold and dollar reserves, whether they are increasing or decreasing. At the time of the British balance of payments crisis in September 1949, sterling area gold and dollar reserves had declined very rapidly to \$1,425 million. This prompted a series of financial and economic discussions in Washington from which emerged the British decisions to devalue their currency by about 30 per cent relative to that of the United States, a step which made it easier to export and harder to import. Immediately the reserves started to climb and they rose by almost \$1,000 million to a level of \$2,422 million at the end of June 1950. This recovery was also assisted by increased economic activity in the United States with a resultant increased demand for sterling area products. In this period Canadian imports from both the United Kingdom and the rest of the sterling area increased substantially.

After the commencement of the war in Korea there was, as we all know, a tremendous upsurge in buying of raw materials, with a belief that many of them would come into very short supply. This, of course, led to large price increases, particularly for three main sterling area raw material dollar earners: wool, rubber and tin. In these circumstances, sterling area sales of raw materials, particularly to the United States, rose to unprecedented heights. The British reserves continued their climb at an even greater rate. By the end of March 1951, they amounted to \$3,758 million, an increase since the end of June 1950, of \$1,336 million. This increase in reserves was further stimulated by the intensified sterling area controls on dollar goods which were imposed in mid-1950.

During the second quarter of 1951, events occurred which arrested the rapid increase of sterling area reserves. It became apparent that there was not as great a shortage of some of these raw materials as was first contemplated. In the case of rubber and tin, the shortage was largely created by the rate of stock-piling. American buying of many raw materials was stopped or drastically reduced. Price declines occurred which were almost as great as the increases which had preceded them. In the case of wool, prices in June 1951 were at roughly the same level as they had been in June 1950. Sterling area sales in the dollar area declined both in quantity and value, and at the same time their purchases from

the dollar area increased. The increase in sterling area reserves which had amounted to \$458 million in the first quarter of 1951 amounted to only \$109 million in the second quarter. Reserves rose at June 30 to what is probably their peak for this year of \$3,867 million. Although the figures have not yet been finally calculated, it is expected that there will be a large decline in sterling area reserves in the third quarter.

It is perhaps not so widely recognized in this country, that the financial and economic problem of the United Kingdom at the present time has become a general one rather than remaining confined to the dollar area. This problem arises from the inability of the United Kingdom to produce export goods in sufficient quantity and value to pay for its needed imports and still meet the demands of rearmament and of the British civilian population. Because of this the United Kingdom has been recently incurring large deficits in its accounts with areas other than the dollar area. For example, the whole sterling area this summer ran large deficits with the European Payments Union. Similarly, the United Kingdom has been increasing its indebtedness with the rest of the sterling area so that sterling balances are rising again. Obviously, in conditions such as these, for the United Kingdom to meet its whole problem it is necessary to do more than limit still further its imports from the dollar area. Rather, it may have to take action in respect to all its accounts, and readjust its control program so that imports are restricted almost as much from soft currency countries as from Canada. In other words, the time appears to have come for the United Kingdom to be less discriminatory in its import restrictions.

There is one further aspect of Canadian trade which has been on all our minds in recent months which I should like to discuss with you for a few minutes. I am referring to the unfavourable trade balance which we have been running this year. Although this balance shows up in the total figure, it is, of course, almost entirely an unfavourable balance with the United States. The deficit with the United States for the first seven months of this year amounted to \$376 million, compared with \$88 million in the same period of last year. The reason for this is that, although our exports have increased, imports have increased to a much greater extent. Our imports from the United States, again in the first seven months, are \$532 million greater this year than last.

It is notable that Canadian official holdings of gold and United States dollars have held remarkably steady this year. In December 1950 these amounted to \$1,742 million; in June 1951 to \$1,683 million. How can we account for this in the face of our large trade deficit? It is because of the large capital inflow from the United States, for resource development and for direct investment in Canadian secondary industries. Americans have been buying recently Canadian securities on an extensive scale. For the first time since the 1920's there has been a revival of Canadian borrowing in the United States, particularly on the part of municipalities.

Offsetting this capital inflow has been heavy Canadian buying in the United States. This is particularly for the capital investment programme in Canada, which this year will attain unprecedented levels. Secondly, consumer buying has been very heavy. Thirdly, higher prices have forced up the value of our imports to a considerable extent. Finally, defence buying has commenced on a large scale.

It is important to notice that in each of the first six months of this year Canada has had unfavourable total trade balances. This has been due principally to the unfavourable balance with the United States. In July, however, the unfavourable balance with the United States was reduced. The result was that for the first time this year Canada had a favourable balance of total trade.

It is not easy to foresee the future of our balance of payments with the United States. Capital investment will certainly be maintained and this should maintain the imports of machinery and equipment. Consumer buying is not likely again this year to reach the very high levels prevailing in the early months. In fact, this buying declined during the summer and this is probably the main reason for the lower imports from the United States in June and July. Prices of some basic materials, particularly cotton, are likely to decline and this should lower the value of imports for these products. Defence buying will increase. Offsetting these imports are probable greater exports to the United States. Exports of raw materials in the second half of the year are likely to be greater than in the first half. Increased American defence expenditures may be made in this country. On the capital side of the account, there is no particular reason for believing that the rate of capital inflow will fall off to any substantial extent. Considering all the factors, I do not believe that Canada is faced with a balance of payments problem at present which warrants any direct government action.

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