



INFORMATION DIVISION
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OTTAWA - CANADA

July 1946

BACKGROUND OF CANADA'S FOREIGN TRADE

Canada possesses a great abundance in a comparatively small variety of natural resources - a fact which has had tremendous influence on the country's economic development. With a prodigious productive capacity in certain specialized fields, yet lacking population great enough to constitute an adequate domestic market, Canada has to look abroad.

Canada produces wheat, lumber, wood pulp and nickel in much greater quantities than the people of Canada can use. Because, due to a happy combination of natural advantages Canada produces them efficiently and cheaply these products find a ready market abroad in normal times. Other products needed in Canada are not produced there or are produced in limited quantities: some, like natural rubber, tea and cotton, because the climate is unsuitable; others, like wool, silk, china and certain types of machinery, because they can be produced more cheaply in other countries. These commodities Canada must buy abroad. As a result, the Canadian economy is based fundamentally on the ability to export its surplus products to pay for imports of commodities lacking within its borders. Foreign trade, therefore, is the lifeblood of the Canadian nation, supplying at least one third of the Canadian national income.

The following table outlines the export history of some typical Canadian products over the last three decades:

CANADA'S LEADING EXPORTS
(in millions of dollars)

| | <u>1920</u> | <u>1930</u> | <u>1940</u> | <u>1943</u> |
|------------------------------|-------------|-------------|-------------|-------------|
| Pulp and paper products..... | 100. | 175. | 221. | 250. |
| Wheat and wheat flour..... | 279. | 223. | 146. | 301. |
| Lumber and shingles..... | 86. | 41. | 75. | 80. |
| Autos and parts..... | 18. | 20. | 65. | 455. |
| Nickel..... | 9. | 21. | 61. | 68. |
| Aluminum in bars..... | 6. | 8. | 33. | 124. |
| Asbestos..... | 9. | 8. | 16. | 22. |

In the stream of goods coming into Canada, the following commodities predominate:

CANADA'S LEADING IMPORTS
(in millions of dollars)

| | <u>1920</u> | <u>1930</u> | <u>1940</u> | <u>1943</u> |
|---|-------------|-------------|-------------|-------------|
| Machinery, farm implements, engines and boilers..... | 64. | 83. | 115. | 173. |
| Petroleum, refined and crude.. | 31. | 64. | 62. | 86. |
| Rolling mill products..... | 40. | 47. | 56. | 66. |
| Coal..... | 60. | 57. | 50. | 101. |
| Automobile parts..... | 13. | 23. | 48. | 67. |
| Cotton and cotton goods..... | 83. | 36. | 44. | 86. |
| Rubber products..... | 18. | 13. | 35. | 23. |

In pre-war years Canada was surpassed as a trading nation only by Great Britain, the United States and France. In 1937 Canada exported more goods per person than any other country in the world. Producing for war, Canada became the world's second exporting nation. Listed below are the comparative values of commodity exports and imports per person in some other countries in 1937, a representative pre-war year.

| | <u>Exports</u> | <u>Imports</u> |
|----------------------------------|-------------------|----------------|
| | (in U.S. dollars) | |
| Canada..... | 91 | 73 |
| United Kingdom..... | 52 | 97 |
| United States..... | 25 | 23 |
| Industrial European countries... | 33 | 40 |
| Other European countries..... | 13 | 14 |
| Japan, Korea, Formosa..... | 9 | 11 |
| China..... | 2 | 2 |
| India..... | 3 | 2 |
| U.S.S.R..... | 2 | 2 |

'Logistics' are a factor

To be a trader a country must be able not only to produce the goods but also to move them from place to place. Canada is nearly four thousand miles across and much foreign commerce involves the problem of transporting goods produced inland to tidewater and vice versa. Out of this need a colossal network of railways has grown, totalling about 42,000 miles of track. In addition, canals in the St. Lawrence River system make it possible to ship goods from almost two thousand miles inland down to the sea. For shipping on these inland waters Canada has a shallow draft fleet of 650,000 tons; for deep sea carrying, a war-swollen merchant fleet of over a million gross tons - fourth among the merchant fleets of the world.

The movement of goods in Canada, however, is conditioned to a certain extent by the climate. Of the six major Canadian ports, three are icebound, for five months of the year. Ice conditions also restrict the utilization of the shortest route to Europe through Churchill on the Hudson Bay.

How it grew

Canada's trade has been moulded by the character of its natural resources. These in turn are conditioned by climate and physiography. For instance, the great masses of Precambrian rock comprising large parts of Canada, are covered with a layer of soil too shallow to support agriculture but favourable to the growth of forests and fur bearing animals. Hence, trading in furs was bound to develop (in the 16th century), and later the timber trade - dealing in the long square timbers of pine needed for building wooden sailing vessels. The fishing trade grew early out of the presence on both coasts of a wide continental shelf with waters shallow enough to provide ample feeding grounds for large numbers of fish and cold enough to assure

their firm flesh and fine flavour. The Great Central Plain, composed of deep brown silt laid down by pre-historic floods, was opened to cultivation in the latter part of the nineteenth century when the trans-continental railways were built. Thus began Canada's wheat and grain trade. The Laurentian Shield, widespread base of old, worn-down Precambrian mountains curving in a broad horseshoe around Hudson Bay, are studded with minerals both precious and base, making Canada a foremost exporter of these raw materials.

With the expansion of industrialization brought about by the introduction of steam power in 1850 and electric power at the turn of the century, the nature of Canada's stock-in-trade began to change and grow more diverse. Canadians began to do a certain amount of processing on their raw materials before exporting them. Wood was turned into pulp and paper which became one of the leading exports. Metals were smelted, electrically refined and shipped out of the country in that form instead of in concentrated ore as formerly. Wheat was turned into flour; coarse grains fed to hogs and turned into bacon.

As export trade grew, imports also expanded. Up to 1913 Canadian trade had grown steadily through the export of staples and the import of capital equipment and manufactured consumer goods. During World War I the growth of trade was accelerated. It was interrupted by the deflation of 1920 but again expanded with business revival. During the '30's trade fell off greatly in terms of value because of the precipitous decline in prices, in terms of volume because of poor business conditions throughout the world.

World War II served to emphasize the expansion of Canadian manufacturing activities. In 1919 agriculture contributed 44 per cent to the total net value of production while manufacturing contributed 33 per cent. By 1929 manufacturing contributed 39 per cent while agriculture's share dropped to 28 per cent. In 1939 manufacturing constituted 39 per cent of the total net value of production and agriculture 28 per cent. By 1943 war production had driven the output of manufacturing to 54 per cent of the total and agriculture (although greatly expanded) represented only 20 per cent of the whole.

While a part of the wartime expansion in manufacturing was the result of demands not likely to outlast the emergency, it is probable that some of the new developments will exercise a continuing affect on the nature of Canadian export trade.

Some idea of Canada's trading picture from the end of World War I to the peak of World War II emerges from the following table:

CANADA'S EXTERNAL TRADE (excluding gold)
(in millions of dollars)

| | Exports | Imports | Visible balance of trade (Excess of exports + imports -) |
|------|---------|---------|---|
| 1919 | 1,290. | 941. | + 349. |
| 1920 | 1,298. | 1,337. | - 39. |
| 1925 | 1,252. | 890. | + 361. |
| 1929 | 1,178. | 1,299. | - 121. |
| 1934 | 656. | 513. | + 143. |
| 1939 | 936. | 751. | + 185. |
| 1944 | 3,483. | 1,759. | + 1,724. |

For detailed figures of the commodities Canada exported and imported from 1939 to 1945, see Canadian Information Service Reference Paper, Canadian War Data, General Series, Number 4.

Canada's trade pattern

Both in terms of imports and exports Canada's prewar trade reflected a dominating triangular pattern, Canada - United States - United Kingdom, accounting for 85 per cent of her total foreign trade. Great Britain was Canada's largest single export market; the U.S. was the second. The U.S. was the largest source of Canada's imports; Great Britain was the second largest.

CANADIAN BALANCE OF PAYMENTS

(in millions of dollars)

| | U.K. | U.S.A. | Other Countries | Net Balance |
|------|--------|--------|-----------------|-------------|
| 1926 | + 58 | - 231 | + 300 | + 127 |
| 1930 | - 106 | - 334 | + 113 | - 327 |
| 1938 | + 127 | - 149 | + 122 | + 100 |
| 1943 | + 1149 | - 19 | + 76 | + 1206 |
| 1944 | + 746 | + 17 | + 234 | + 997 |

Trade barriers

As in most countries with a mixed economy, Canada's trade policy has been marked by a conflict between low-tariff and protectionist views. Canadian policy has been affected by that of the United States, which with some variations has usually tended to be in favour of high tariffs, especially since 1930. Canadian commercial policy for the last hundred years has been characterized by repeated attempts to bring about reciprocal trade agreements with the U.S.A. Two interests in Canada have had to be considered: those of the food and raw material exporting industries (agriculture, lumbering, mining, fishing, etc.) which desired freedom to import low cost machinery, equipment, clothing, and consumer goods; and those of the developing secondary industries which sought for protection against the competition of the large-scale established industries of the United States and Great Britain.

In general, a policy of differentiated tariff rates has been followed, and the rate on each article has been fixed with a view to the amount of fabrication performed in Canada, the extent and character of the market, the importance of the industry, the relative costs of production, revenue aspects, trade agreements and other relevant considerations. Tariff rates have been periodically revised.

Canadian tariff structure

The present Canadian tariff structure is built on three main levels:

1. The British Preferential rates
2. The Intermediate rates
3. The General rates

British Preferential rates apply to all countries within the Empire. Canada was first to introduce this method of preferred treatment for the goods of the United Kingdom and British Dominions. Within the Commonwealth, next to the U.K., Australia, New Zealand and British South Africa are most important to Canada as customers and suppliers.

Intermediate rates apply to goods from countries, not entitled to the British Preferential rate, that have been accorded, under trade agreements, tariff treatment lower than the General tariff. In some instances rates lower than those of the Intermediate Tariff have been granted, and extended to

countries with which Canada has most-favoured-nation agreements (but not necessarily to all countries enjoying the benefit of the Intermediate Tariff).

General Tariff duties are levied on all imports not covered by the above two categories.

At the present time, Canada's tariff relations are affected by trade agreements, conventions of commerce or participation in treaties made by the United Kingdom with foreign powers listed as follows:

Empire Countries

United Kingdom, Eire, Australia, New Zealand, Union of South Africa and British West Indies.

Non-Empire Countries

France and French Colonies, Paraguay,
(Exchange of most-favoured-nation treatment)

Argentina; Belgium and Luxembourg and Belgian Colonies; Bolivia; Brazil; Chile; Colombia; Costa Rica; Dominican Republic; Ecuador; Guatemala; Haiti; Mexico; Netherlands, Netherlands Indies, Surinam and Curacao; Panama; Poland; Portugal, including Madeira, Porto Santo and Azores; Salvador; Spain; Sweden; Switzerland; United States; Uruguay; and Venezuela.

'Most-favoured-nation treatment' indicates a mutual agreement that the two nations will give each other, either generally or on specific commodities, rates which are as low as those given to any other country.

A long-sought trade treaty with the United States was agreed to by both countries in 1935, and modified in 1939. Through it the U.S. granted concessions on fish, potatoes, silver fox furs, cream, hay, salmon, lumber, cattle and many other items. Canada reciprocated by removing a special three percent excise tax levied in addition to the regular duty during the depression; also reduced rates on most fresh vegetables, cigarettes, cotton goods, wall-paper, proprietary medicines, motorcycles and a wide range of other articles from insecticides to dynamos and electric refrigerators, imported from the U.S.

The general intention of the above mentioned treaties was to gain admittance for Canada's primary staple products - surplus foodstuffs, processed and raw materials such as wheat and flour, newsprint, lumber, meat, fish, dairy products, and non-ferrous metals to other countries at favourable rates in return for the reduction of duties on the admission of their products into Canada.

A war-changed scene

World Wars, on two occasions have made great changes in Canada's trading habits. During World War II, per capita exports increased from \$82 in 1939 to \$287 in 1944, the record exporting year. Total exports of domestic products reached the unprecedented value of \$3,440,000,000, an increase of more than 271 per cent over 1939. About four fifths of the total, however, was of a wartime character; more than half of the increase was of foodstuffs, including meat and dairy products to the U.K. and large shipments of grain to the U.S. The high urgency of production for war has fostered the development of new capacities and skills in industry. Canada has come out of World War II with vastly expanded facilities for producing a greatly widened range of commodities. The war made necessary the establishment of new industries, new factories, shipyards and munitions plants while many existing industries underwent tremendous expansion. Great advances were made in the production of finished goods and equipment, some of which were of a type quite new to Canadian industry and had previously been imported from abroad.

Some of this new capacity will find peacetime outlets in the home market. In many cases however, the expansion has been so great that it far exceeds the possibilities of domestic consumption. Large markets abroad are needed to keep the Canadian industrial machine running at anywhere near its new capacity. Manufactured products will be available in greater quantity and variety for export: raw and semi-processed materials may take a part of the place formerly occupied by manufactured goods on the import list. Canada's trade picture is likely to be considerably changed.

Canada and Bretton Woods

Canada's trade has been such as to produce large favourable balances with some countries e.g. the United Kingdom, and unfavourable balances with others e.g. the United States. Hence such machinery as the International Bank and Monetary Fund set up under the Bretton Woods Agreement, to obviate the necessity of balancing accounts directly between each pair of countries and to promote trade on a multilateral basis, is likely to be a distinct advantage to Canada. Canada has therefore signed the Bretton Woods Agreement and agreed to participate in these institutions.

The history of commerce proves that the largest volume of trade is found between industrialized and progressive nations. But the recent war, while building up the industrial capacities of some countries, has at the same time crippled the industries of others. It has disrupted the old trade patterns completely. Canada's stake in restoring the war-ravaged nations is very great. The Canadian parliament has authorized export credits up to a total of \$750,000,000 over and above the credits extended to the United Kingdom. Canadian rehabilitation loans to other countries include the following:

Under the Export Credits Legislation up to February 12, 1946

| | |
|-------------------------|----------------|
| Belgium..... | \$ 25,000,000. |
| China..... | 60,000,000. |
| Czechoslovakia..... | 19,000,000. |
| France..... | 242,500,000. |
| Netherlands..... | 125,000,000. |
| Netherlands Indies..... | 65,000,000. |
| Norway..... | 30,000,000. |
| U.S.S.R..... | 3,000,000. |
| Unallocated..... | 180,500,000. |
| Total..... | \$750,000,000. |

Other loans (up to March 31, 1946)

| | |
|---|----------------|
| Greece..... | 6,500,000. |
| Roumania..... | 24,300,000. |
| U.S.S.R..... | 10,000,000. |
| All others including war advances to U.K..... | 508,500,000. |
| Total..... | \$549,300,000. |
| 1942 loan to U.K..... | 700,000,000. |
| 1946 loan to U.K..... | 1,250,000,000. |

Prosperity within each country

The table on page 4 shows that Canadian trade in the past has fluctuated as prosperity ebbed and flowed. It is generally conceded that the prosperity of a world with a high volume of international trade depends on the internal prosperity of the major countries. Canada supports the basic assumption of the Bretton Woods agreements that all countries should do their utmost, in both the national and international fields, to ward off a major depression. Canada's Department of Reconstruction and Supply, created in 1945, is committed to the task of working out ways and means of avoiding the recurrence of depressions within Canada.

Recovery of the United Kingdom

Great Britain forms a vital part of Canada's triangular trade pattern, and the restoration of trade with the United Kingdom is essential for Canada. It would be impossible for Canada to carry on her normal trade with the United States unless measures are adopted to make American and British currencies freely convertible. But the United Kingdom has emerged from the war with its international financial position seriously affected. British securities abroad have been depleted. Through repatriation, much shipping has been lost, and her export capacity has been impaired. During rebuilding, the United Kingdom will have to maintain a substantial volume of imports, and to do this, substantial credits from the creditor nations are needed. In addition to a 1942 loan of \$700,000,000, the Canadian government has recently opened an additional credit of \$1,250,000,000, and cancelled the \$425,000,000 owing by the U.K. to Canada with respect to the British Commonwealth air training plan. Canada's loan to the United Kingdom is about four times as large as the \$3,750,000,000 U.S. loan in relation to population and possibly five or six times as great in relation to per capita income. Patterns for future external trade will show up more clearly after the international trade conference now scheduled for the spring of 1947 has taken place. The Doughton Bill has given power to the President of the United States to negotiate tariff reductions up to 50 per cent, and it remains to be seen how far the participating countries may be willing to go in the actual removal of trade and tariff barriers.

Meanwhile, Canada is getting along with the business of the transition period which lies between war and peace - the business of shipping as much food, clothing, machinery and seeds as possible to those who need them most. Commitments amounting to \$154,000,000 to U.N.R.R.A. have been fulfilled. This sum was made up of a \$15,400,000 contribution to U.N.R.R.A.'s free fund to be spent in any country, and \$138,600,000 to pay for goods and services to be supplied by Canada. Many of these goods, embracing a whole alphabet of reconstruction goods, from ambulances to zinc ingot, have already been shipped.

More machinery for external trade

Canada's Foreign Trade Service has been strengthened to cope with expanding Canadian trade. The Trade Commissioner Service today has representatives serving in 29 offices in different parts of the world. The prime function of these offices is to keep the industries in foreign lands in close touch with those of Canada, and to watch for and report opportunities for export or import trade.

In recognition of the saying that trade is a two-way street, Canada's Foreign Trade Service, while promoting export trade, has added an Import Division, which concerns itself with the solution of problems involved in this special aspect of trading. This Division's duties include: procuring desirable imports into Canada, arranging adequate shipping space for essential imports, seeing that Canada receives its fair share of any goods that are subject to international allocation.

Further reading

- "Canadian Economic Development" - A. W. Currie.
- "An Economic History of Canada" - Mary Quayle Innis.
- "Canada-World Trader" and "Ways to World Trade" (Canadian Affairs Series), Wartime Information Board.
- "Trade for Prosperity" - W. M. Drummond, published by the Canadian Institute of International Affairs.

"The Canada Year Book", Dominion Bureau of Statistics, Department of Trade and Commerce: An official statistical record of the development of the country.

Great Britain's irregular trade pattern, and the restoration of trade with the United Kingdom is essential for Canada. It would be impossible for Canada to carry on her normal trade with the United States unless measures were adopted to make American and British currencies convertible.

"Canada, World Trader" - National Film Board.
"Now, the Peace" - National Film Board.
"This is Our Canada" - National Film Board.

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Canada's share in the United Kingdom's loan in relation to her population and possibly five or six times as great in relation to per capita income. Patterns for future external trade will show up more clearly after the international trade conference now scheduled for the spring of 1947 has taken place. The Doughton Bill has given power to the President of the United States to negotiate tariff reductions up to 50 per cent, and it remains to be seen how far the participating countries may be willing to go in the actual removal of trade and tariff barriers.

Meanwhile, Canada is getting along with the business of the transition period which lies between war and peace - the business of shipping as much food, clothing, machinery and tools as possible to those who need them most. Commitments amounting to \$24,000,000 to U.S.R.A. have been fulfilled. This sum was made up of a \$15,400,000 contribution to U.S.R.A.'s free fund to be used in any country, and \$8,600,000 to pay for goods and services to be supplied by Canada. Many of these goods, comprising a whole alphabet of recreation goods, from ambulances to zinc lingo, have already been shipped.

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"An Economic History of Canada" - Mary Kaye Linn.
"Canada-World Trade" and "Ways to World Trade" (Canadian Affairs Series), Maritime Information Board.

"Trade for Prosperity" - W. M. Mackintosh, published by the Canadian Institute of International Affairs.