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# STATEMENTS AND SPEECHES

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## CANADA'S TRADE POLICY

An address by Mr. George J. McIlraith, M.P.,  
Parliamentary Assistant to the Minister of  
Trade & Commerce, to the Canadian Importers  
& Traders Association, Toronto, April 9, 1948.

May I thank you for your kind invitation to me to take part in the Annual Meeting of your Association. I thank you for your kindness in inviting me and may I, in turn, express to you a word of appreciation for the good work you are doing in developing international trade. As an association of importers you are making a direct contribution to the Canadian Government's policy for stabilizing international trade and thus contributing significantly to the maintenance of high levels of employment and income in this country. If I can help you make that contribution by clearing away any confusion and uncertainty in your mind as to the Government's external trade policy at this time, I will be pleased.

On November 17th last, the disabilities under which you labour as importers were eased and increased at one and the same time. The Government was able to announce the concluding of agreements with 17 countries, the effect of which was to simplify the problems of carrying on international trade. At the same time, the Government announced that it was forced to restrict the import of a wide range of goods for the purpose of conserving foreign exchange. What I wish to do this afternoon is to highlight Canada's foreign trade prospects, and indicate the direction of Canadian Government policy for stabilizing and fostering trade abroad.

The Canadian Government recognizes that far-reaching changes have taken place in the international trading sphere as a result of the war. The broad detail of that change is fairly clear. As far as possible the Government is trying to anticipate the adjustments that will have to be made and to work them out in as favourable an atmosphere as possible.

Briefly, the situation is this: Whether we like it or not, we must have a high level of exports to maintain our prosperity, and if we export in large volume we must import in large volume, for in the long run, visible and invisible exports must be balanced by visible and invisible imports. This country is so dependent on external trade that we are now the third largest trader in the world. On a per capita basis, our trade is about three times that of the United States and twice that of Great Britain. In fact, our trade in 1947 was approximately equal to the pre-war trade of the United States.

Furthermore, whether we like it or not, the post-war pattern of trade which we have yet to work out for ourselves will have to be substantially different from that which prevailed before the war. Some countries will now assume a

greater importance than before the war as exporters and others as importers. We must adjust our trade to these changes. The relationship between our own merchandise exports and imports will also be affected by the fact that we are now becoming an important creditor nation, as witnessed by the large-scale financial help we have been able to give war-time allies both during and since the war.

The changes in the pattern of international trade that are particularly important for this country are these: The United Kingdom has suffered greatly in an immediate and direct way as a result of the war, so that it has become relatively more important as an exporter and relatively less important as an importer than before the war. Conversely, as the United States takes on the obligations of world banker, it becomes relatively more important as an importer and relatively less important as an exporter, except as it exports capital. In other words, the United Kingdom has become a less favourable export market and a more favourable import market for Canada, and the United States is becoming a more favourable export market. In the long run, our trade with these two countries should come into better balance. Because of our difficult foreign exchange position, the Government is making a strong effort to speed up the process by attempting to increase our exports to the United States. The drive to enlarge our export trade with the United States, therefore, is not a short-run emergency measure, even though it is not free of the element of urgency at this time.

Not only must we adjust our trade on the basis of the export and import potentials of other countries, but an additional adjustment will have to be made on the basis of what we have to sell and what we need from abroad. Thus, while manufactured goods have constituted between 79 and 80 per cent of our imports since the First World War, the proportion of manufactured goods among our exports has climbed from around 55 per cent to 75 per cent. Behind this development lies the industrialization of our economy. This has been going on at a very rapid rate during the past eight or nine years of war and post-war adjustments and is still continuing at a record level.

This industrialization means that we can make more of the things we use and process to a greater degree the things we export. The first development will tend to make us less dependent on imports of the more important kinds of manufactured goods and more dependent on imports of raw and basic materials to be processed. It should also increase the volume of imports of luxury and semi-luxury goods as long as a high level of income and employment can be maintained. The ability to process more of our exports means that their total value will increase faster than their volume. This, in turn, increases the ability to import. The most likely result of the changed content of our exports and imports will be a widening of our market. In other words, we will become less dependent on the United States and the United Kingdom for exports and imports.

The world now has a backlog of nine years of adjustments in trade to make up, and during that nine years the economies of most countries have been greatly changed. The post-war recovery in Western Europe has been slower than was anticipated. This is due to a number of factors, among which is the physical destruction of plant and equipment which was greater than had been realized. The political difficulties in the various countries during the reconstruction period have also been a

contributing factor and, in addition, the unfortunate weather conditions with their effects on the crops. However, the European Recovery Program should be of major assistance in speeding up the adjustments. We in Canada must be, at the same time, both flexible in anticipating the adjustments required in making them.

Because of the favourable internal developments since the end of the war and the record peace-time level of our external trade, it came as a surprise to most Canadians to learn that our external position was not as healthy as it appeared and that we were facing a crisis. The reason is well known to you. The large volume of imports from the United States was being paid for in cash. Because we were financing a substantial proportion of exports going to war-time allies, our exports failed to earn enough hard currency to pay for these. The difference had to be made up by drawing on a reserve of gold and U.S. dollars. In May, 1946, our official holdings of gold and U.S. dollars amounted to \$1,667 million, our post-war peak, and by November, 1947, this reserve was down to \$480 million. It was imperative, therefore, to reduce quickly our adverse balance of payments with the United States.

The course of action decided on by the Government was aimed not only at meeting the immediate emergency but of meeting it in terms of the long-run adjustments that I have pointed out must be made if our foreign trade is to adequately serve our needs. The object was to improve our foreign trade balance of payments, (1) by importing less from the United States, where payments must be made in U.S. dollars; (2) by importing more from countries where payments are made in other currencies, mainly pounds sterling; (3) by exporting more, particularly to areas where payment is in U.S. dollars; and (4) by reducing credit to other countries. The effect of such a policy is to re-orient (1) internal and external markets; (2) consumer purchases; (3) our investment program, and (4) our production program.

The limitations placed on imports were embodied in the Emergency Foreign Exchange Conservation Act, commonly known as Bill 3. This Act limits the import of consumer's goods by means of prohibitions, quotas and excise taxes, and provides for the licensing of imports of capital goods and certain materials and parts used in production. Ministers of the Crown, and in particular the Minister of Trade and Commerce and the Minister of Finance, have warned against acceptance of the Emergency Foreign Exchange Conservation Act as a protectionist measure. Although the purpose of the restrictions is to encourage an increase in the Canadian content of products manufactured here, the new production must be able to meet competition from abroad. No encouragement is being given to the production in Canada of goods the import of which is now prohibited, and anyone who undertakes such production does so at his own risk.

The large part of the savings in U.S. dollars under the Act will take place in the field of consumers goods rather than in capital goods and production materials. The Minister of Finance has placed a tentative estimate of the reduction of consumer goods imports at \$300 million, using the 12 months ended June, 1937, as a base. A saving of this magnitude is not enough to correct our foreign exchange position with the United States. Additional funds must be found by increased exports to

the dollar-area market. However, the capital goods import restrictions, in addition to the saving in U.S. dollars, will permit the direction of our plant and capital expenditures from non-essential construction to construction that will enable us to get over our U.S. dollars shortage as soon as possible. In other words, the criteria for judging the essentiality for projects for which capital goods import permits will be granted, are: Does the project provide for production of goods to meet export demand. Does it provide for the economic continuation or expansion of industries for producing goods which we would otherwise import or, is it essential for the maintenance of a public service.

It is still too early to hazard a guess on how soon our gold and U.S. dollar reserve will be raised to the point where import restrictions can be dropped. The immediate result seems to be favourable. In the three months, September to November, total exports exceeded total imports by \$30 million, which was less than half the total of a year earlier. In the three months following the establishment of import restrictions, that is, December through February, the favourable balance was \$130 million, double the balance of a year earlier. On our trade with the United States, which is the crux of the foreign exchange problem, an unfavourable balance of \$140 million in September-November 1946, had increased to nearly \$240 million in September-November 1947. In the three months following restriction of imports, the unfavourable balance was \$115 million, which can be compared with an unfavourable balance of \$180 million a year earlier. Similarly, there has been an increase in our holdings of gold and U.S. currency. This reserve dropped to \$460 million in mid-December, and increased to nearly \$530 million at the end of February, not including \$50 million drawn on the loan from the American Export-Import Bank.

While these are hopeful signs, it must not be assumed that our foreign exchange problem is solved when our reserve of hard currency has been built up to a level that will permit the removal of import restrictions. In the absence of the other corrective actions I have mentioned as part of Government policy, we would only plunge into another exchange crisis. In the first place, our imports stand at a very high level relative to exports in periods of prosperity. Since the bulk of these imports will continue to come from the United States, the pressure will still be on us to find U.S. dollars to pay for them. As long as we continue to send a large proportion of our exports to non-dollar areas, the possibility of our finding enough U.S. dollars is not good, unless the leading currencies of the world are freely convertible on a stable basis. The world's monetary experience following the First World War tells us this will be a long time.

The re-orienting of Canada's external trade in accordance with the more long-term adjustments I mentioned earlier is not something that can be done in a day. It involved many types of action on the part of both government and business. It also involved re-orienting our internal trade and the pattern of production. I have time to draw to your attention only three examples - investment policy, removal of barriers, and the World Fair. Before the war ended, plans were formulated and put into operation by the Government to convert the huge war production facilities into facilities for production of peacetime goods, and to keep it developing in the direction that would prove of greatest benefit to Canada. Partly as a result of Government

effort, such as special depreciation concessions to certain industries, and partly as a result of the confidence of businessmen in Canada's future, private investment increased from \$500 million in 1945 to \$1.5 billion in 1947. The Department of Reconstruction and Supply forecast for this year indicates a business investment of \$1.7 billion. In addition, governments, non-profit institutions and home builders have also been increasing their rate of investment. The resulting heavy demand for building materials, machinery, and equipment contributed substantially to the increase in imports from the United States.

When it became necessary to limit imports to conserve foreign exchange, it was decided to license capital goods coming into Canada in such a way as to achieve a selectivity that would accord with the needs of our future expansion. The guiding principle of this selectivity is the immediate need to conserve U.S. dollars and the long-run necessity of placing the economy in a position to earn more U.S. dollars.

In view of the increased investment contemplated in 1948, it is unlikely that the licensing of imports of capital goods will reduce the level of these imports below that of 1947. It should, however, put a brake on investment generally, but not on the investment that can make the greatest contribution to Canadian welfare at this time. The Minister of Reconstruction and Supply, Mr. Howe, has also appealed to some 13,000 business establishments by letter, asking them to review their 1948 investment programs and to postpone work wherever it can be done without affecting essential operations and production.

Since the end of the war, Canada has consistently supported international organizations sponsored by the United Nations for the purpose of stimulating commerce and the re-establishment of the multilateral trading system. In particular, Canada has played a leading role in the Food and Agricultural Organization and in the preparatory deliberations at Geneva and the general conference at Havana called for the purpose of establishing the International Trade Organization. In fact, she has been treated as one of the "Big Three" trading nations at these meetings. The results achieved at Geneva exceeded all expectations. A wide basis of agreement was found to exist between many of the leading trading nations of the world. It was possible, therefore, to frame a comprehensive international code of commercial policy. The Havana Conference qualified and extended this code, and provided for the establishment of the International Trade Organization with a much wider membership than the 23 countries at Geneva. The Geneva Agreements also covered the downward revision or binding against increase of some 45,000 items on a most-favoured-nation basis. The deliberations at Havana have now laid the foundation for negotiating tariff concessions between more countries.

I know you appreciate the significance of these developments. The tariff concessions we have received and will probably receive increase the assurance that we will be able to find markets for our surplus production and thereby find the funds needed to pay for imports. The codification of commercial policy makes it easier for us to carry on trade. This also helps us make the adjustment in the pattern of our exports and imports that are needed.

An indication of the many-sidedness of the activities now being carried on, and one that is of interest to you and this City at this time, is the first Canadian International Trade Fair, being held from May 31st to June 12th. This is also the first fair of its kind ever held in North America. Many of your members are actively participating and will have a personal appreciation of the manner in which government and private business have usefully co-operated in this far-sighted national effort.

When authority was first granted for the organization of the Canadian International Trade Fair, in August 1946, plans and expectations were comparatively modest. The latest figures show that there will be products from more than 30 different countries displayed in more than 1,500 exhibits, and occupying in excess of 750,000 square feet of floor space. Buyers from 60 countries have already made arrangements to attend. This will be an unequalled opportunity for Canadian businessmen to cement trade and personal relationships with businessmen from other lands. The rest of Canada relies on Toronto to act as a gracious and accommodating host.

Approximately 40 per cent of the exhibits will be from countries other than Canada. They may well suggest new sources of supply for products required by Canadian importers and manufacturers who have been affected by import restrictions. The truly international nature of the exhibits is also expected to be a strong incentive for the attendance of United States buyers. Here is a great chance to show them at one time the whole range of Canadian products, and so stimulate increased exports south of the border for the U.S. dollars we need so badly.

I was particularly interested to learn of the plans prepared by the Canadian Importers and Traders Association, in co-operation with other organizations, for sponsoring World Trade Week in Canada during the first week of the Trade Fair. Dependent as we are on foreign trade, it is vitally important that every Canadian should be aware of what the Fair means to our economy. Although the Fair has been advertised thoroughly in 75 different countries, the fact that only buyers are invited to attend has kept it pretty well away from the attention of the Canadian public. This is one reason why your staging World Trade Week in conjunction with it is a particularly happy idea. I understand that the Trade Publicity Division of the Department of Trade and Commerce is co-operating with you in some of your publicity plans, and that the Department is planning to help your good work with an advertisement of its own.

I find that there is an increasing awareness on the part of businessmen of the difficult foreign exchange position in which Canada finds itself at this time. A re-orientation of trade calls for adjustments made by importers, the opening up of new channels, a great deal of imagination and a willingness to overcome difficulties. Repeated examples have come to my attention of a widespread willingness to co-operate. This co-operation is needed from all parts of the community. You as importers can make a particularly important contribution. You are in a position to explore the possibilities of importing from countries where our exports exceed our imports, such as the United Kingdom, British Dominions, and British possessions, Western Europe, and the Far East. I am confident that with the energetic co-operation of all Canadians working together our trade problems can be solved with consequent prosperity for our people.

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