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Remarks by Mr. John H. English, Deputy Minister of Trade and Commerce, to the Canadian - United States Business Conference, sponsored by the Canadian Chamber of Commerce and the Chamber of Commerce of the United States, at Ottawa, on February 18, 1959.

I am very happy to have the opportunity of taking part in this Business Conference which has been called to consider ways of strengthening the foundations of the Canadian-American partnership. Relations between our two countries are today being subjected to a more searching examination than they have undergone for many years. Canadians and Americans in various branches of business and in government have been meeting together to an unprecedented extent during the past year or so, in order to reach a better understanding of one another's problems and interests. The Chambers of Commerce in the two countries can justly claim to have helped to pioneer this kind of friendly interchange. Your Canada-United States Committee has been in existence for over a quarter of a century and your national bodies have sponsored conferences of this kind on a number of occasions in the past. These conferences are not expected to produce immediate and dramatic results. They do, however, pave the way for wise action by helping us to gain a clearer appreciation of the essential facts of our relationship.

Interdependence

The subject you have asked me to discuss this morning -- "Our joint economic and trading future" -- implicitly recognizes one of these facts. In the future as in the past the destinies of our two economies will be closely linked together. The interchange of goods and services, capital and know-how, between Canada and the United States is of basic importance to the prosperity of both countries and influences the pace and character of their economic growth. Millions of people on both sides of the border are dependent on the trade which flows across it. Hundreds of companies and thousands of private investors in Canada as well as in the United States have a stake in the success of enterprises on the other side of that celebrated demarcation line.

Similarity of Border Regions

This brings us to another of the enduring facts of Canadian-American relations -- the border. We are two nations and there are many reasons, both in past history and in the present, why we will remain so. At one time considerable importance was attached in Canada to the "north-south pull", as a factor tending to divide our country and tie the different regions closely to the neighbouring parts of the United States. In view of the heavy concentration of population along our common border, which stretches for close to 4,000 miles, it is natural that there should be a close affinity between the neighbouring regions on either side of it. However, most parts of Canada also have strong traditional ties of trade and sentiment with overseas countries, notably the Commonwealth and Europe. Moreover, it should not be forgotten that the neighbouring regions along the Canada-U.S. border frequently have similar climates and resources and are therefore competitors as well as customers of one another both in their own national markets and in the markets of the world. The forests in the Pacific Northwest, the cattle country in the foothills of the Rockies and the Prairies-wheatlands all straddle the international border. The fishing grounds of the Grand Banks and the Atlantic coastal waters provide a livelihood for many in the New England States, as well as the Atlantic Provinces. The principal manufacturing centres of Canada in Ontario and Quebec lie just across the St. Lawrence and the lower Great Lakes from the industrial heartland of the United States.

Changing Pattern of Trade

As you move away from the border, the differences of climate and resources increase, providing the basis for a great part of the trade between the two countries. Our abundant reserves of hydro-power, forest products and metallic ores extend down to the border at some points but they are mainly concentrated in the more northerly regions. Here originate some of our major exports to the United States, such as aluminum and most of our newsprint, non-ferrous metals and iron ore. Similarly, two of our principal imports from the United States -- cotton and citrus fruits -- are produced in the distant Southern States and California. There are, however, few commodities in our trade which fall into the same category as newsprint and cotton, where the one country supplies almost the whole requirements of the other. In most fields, the U.S. and Canada are both competitors and customers of one another. The balance between these two aspects of our relationship is continually changing as our economies grow and develop. This is in fact the source of many of the economic frictions and difficulties which arise between us.

At one time Canada was only a marginal supplier of non-ferrous metals to the United States. With the progressive exhaustion of high-grade reserves in the United States and the

discovery of excellent deposits in Canada, we have come to provide an ever increasing share of American requirements of these metals. Under these conditions, is it realistic to attempt to relegate us once more to the position of marginal suppliers when there is a temporary decline in demand? This, however, tends to be the effect of the restrictions imposed by the United States last fall on lead and zinc imports. We have also become a major exporter of petroleum to certain regions of the United States since the big oil discoveries in Alberta since 1948. Here, too, import restrictions have been instituted by the U.S. and the main burden of the recent decline in American consumption has been shifted to external suppliers. Trade barriers of this kind put back the clock and deny to both our countries the fruits of economic progress.

The manufacturing industry is another field in which economic growth and change have affected the relationship between our two countries. Before the first world war there were few branches of manufacturing in which we could compete successfully with U.S. producers. The stimulus of two world wars, the unprecedented growth of our population and the discovery of new energy sources have combined during the recent decades to make us a strong industrial nation. We are now selling a variety of manufactured goods in the United States. We would like to sell more, but frequently, high U.S. tariffs on manufactured goods prevent us from doing so. The United States has made much progress in reducing barriers to trade over the last two decades. We warmly welcome these developments. However, in the case of manufacturers many duties are still at prohibitive levels. Half a century ago it may have made good economic sense for Canada to export many of its raw materials to the United States and buy them back in the form of manufactured goods. This system is now out-dated, however, and it is not in the best interests of either of our countries to try to perpetuate it by artificial means.

Trade Deficit

Up to now I have been referring to the economic changes which have been working for the advantage of the Canadian exporter. A look at the figures of Canada-United States trade over the last two decades will show that the U.S. exporter has benefited as much or more from the growth and development of our two countries. (From the five-year period 1935-39 to the five-year period 1954-58, U.S. sales to Canada have increased 8.7 times, compared with an increase of 8.3 times in our exports to them.) The opening up of new resources in Canada and the expansion of our industries have resulted in a large demand for many types of capital equipment manufactured in the United States. The remarkably rapid growth of our population and rise in living standards have opened up great opportunities for American producers of certain consumer goods.

It is not necessary to tell this audience that Canadians have in recent years been buying from the United States a good deal more than they have been selling. In 1956 and 1957, our commodity trade deficit with the United States was running at over \$1 billion a year. Last year this deficit declined to \$750 million, a figure which still gives us much cause for concern. The reduced trading deficit last year resulted from a lower rate of Canadian imports from the United States, and not from a higher rate of exports. Thus it does not bring us much closer to a genuine and lasting solution of the problem. I am sure that Americans, like ourselves, would prefer to see their trade balanced at a higher level rather than a lower one. The existence of this trade deficit is a challenge to Canadian exporters, but their success in responding to it depends largely on obtaining freer access to the American market.

Colleagues and Competitors in World Trade

Canadians and Americans are competitors, not only in their domestic markets, but also in the markets of the world. As major trading nations, Canada and the United States frequently have similar interests and objectives. We would both like to see the European Common Market and the proposed Free Trade Area developed in an outward-looking rather than a restrictive way. We both have a big stake in the maintenance of the multilateral trading system and the progress of efforts to reduce trade barriers. We in Canada are particularly conscious of the crucial importance of U.S. leadership and initiative in this field. However, there are some matters on which as competitors in the world market, we do not always see eye to eye. In spite of the diversification of our trade in recent years, wheat still provides about 8 per cent of our total export earnings. It is not surprising therefore that we have taken exception to the use of the huge financial resources of the U.S. treasury to find markets for and to subsidize exports of American wheat and flour in markets where we are a traditional supplier. We are not financially strong enough to use the selling methods employed by the United States. Besides, we feel that exporting a large part of one's output on concessional terms for a considerable period of time is bound to undermine the market. Over the long run it is of little advantage to the U.S. to reduce its own wheat surplus, if the net effect is simply to add to ours. The ultimate success of U.S. surplus disposal policies therefore depends partly on the avoidance of any disruptive effects on the traditional markets of Canada and other producing nations.

U.S. Subsidiaries

There is another situation where Canadians feel the cards are sometimes stacked against them in their competition with U.S. producers for world markets. Some of our strongest

and more efficient export industries are partly or wholly owned by U.S. interests. Usually they are given a completely free hand in competing for export business, and it is not uncommon for them to be more successful than the parent company itself. In some cases, however, they are obliged to channel their export orders through the head office in the United States. It is discouraging to the Canadian export sales staff and to our Trade Commissioners overseas who have worked to win these orders to find that they have been diverted to plants in the United States.

This, of course, is all part of the problem of integrating U.S. subsidiaries more closely with the Canadian economy. My Minister recently suggested some ways in which this could be done, and I think it would be useful to repeat them in this forum.

They are:

1. Offering Canadians opportunities to buy equity stocks in the subsidiary companies operating in Canada.
2. Encouraging and training Canadian personnel to take an increasing part in the management and professional positions in subsidiary corporations.
3. Carrying out more research work and undertaking new development.
4. Promoting exports from Canadian plants.
5. Using as many Canadian materials and component parts in their Canadian operations as can be economically justified.
6. Doing more processing of Canadian materials before export, where this can be done on a competitive basis.
7. Giving local management greater autonomy in operating Canadian subsidiaries.
8. Encouraging branch plants to participate more fully in the life of their communities.

U.S. subsidiaries may feel that they do not have to work so hard in Canada as in some other countries to identify themselves with national aims and objectives. Actually they need to work harder. Because the executive of a U.S. subsidiary talks like us and largely thinks like us, we are surprised if he does not also share our pride in Canadian achievements and our belief in Canadian technical skill, managerial ability and workmanship. The U.S. subsidiary in Canada can play an important role in broadening and enriching the relationship between the two countries. The paradox, however, is that to do this, it must to some extent submerge its distinctively American character and become an integral part of the Canadian community.

It is not easy to reconcile the need to follow our some times divergent economic interests with the fact of Canadian-American interdependence. This requires some special qualities of mind, which are unfortunately not always present, and it is in this sphere particularly that there is room for improving the economic relations between our two countries. I would like to pay tribute to the valuable work the Chambers of Commerce are doing in helping to overcome ingrained attitudes and ideas which complicate the search for solutions to our economic problems.

Of course the best way of dealing with problems is to prevent them from arising in the first place. We can do this most effectively by facilitating a balanced expansion of the trade between our two countries and encouraging economic growth and development on both sides of the border. In this way our partnership will be strengthened, and we shall be able to take full advantage of the economic opportunities which the future offers. Our two economies are just emerging with surprising resilience from the sharpest set-back of the postwar period. In physical terms national output was maintained in Canada last year at the same level as in 1957, while in the United States it declined by only 3 per cent. We are now in the initial stages of what appears to be a broadly based upswing, although the improvement in business conditions may tend to be masked in the next month or two by normal seasonal influences. In both countries consumer spending is one of the brightest spots in the economic picture. This seems to suggest that among our two peoples there is no lack of confidence about the prospects for the period immediately ahead.

Looking into the more distant future, I believe we are on the threshold of a period of renewed economic growth. It appears that the rate of development may be somewhat greater in Canada than in the United States. In some respects we are still an under-developed country. We still have a frontier in the north and there is considerable scope for increasing and diversifying our manufacturing industries and expanding our service industries. Thus, if Canada and the United States work together there will be many possibilities in the future for expanding trade and broadening economic co-operation between us. However, the task of fostering this interchange is not alone the responsibility of government. It will require the imagination and concerted efforts of people in different walks of life on both sides of the border.