



THE ROYAL BANK OF CANADA

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CANADA IS A WORLD CUSTOMER

CANADA holds a unique place in world economy — at least in that part of it which remains independent and free.

She derives between 25 and 30 per cent of her national income from her merchandise export trade.

For this reason there is a great deal of talk about exports. Every producer wants to ship some of his goods abroad, and that seems the most important thing in the world.

The objective of this Monthly Letter is to turn the other side of the penny, and to show that it is the same penny. We are closely concerned with the purchasing power of other countries, and that purchasing power depends upon what goods other countries can sell.

Canada is far from being self-sufficient. To keep up our standard of living we must import certain goods we cannot produce, or cannot make economically. One of our main purposes, indeed, in using our own specialized resources to their full is to enable us to bring in the things we are lacking.

Importance of the import business has been recognized by government agencies. The Import Division of the Foreign Trade Service, Department of Trade and Commerce, has been set up to give information regarding production, supply, and price conditions in foreign markets, advice on import requirements, and all matters connected with purchase of goods abroad for sale here. Trade commissioners are ready to give information about their territories. They will recommend to intending Canadian importers the names of responsible supply houses, manufacturers and agents. They advise importers as to the best methods of approach to foreign suppliers. When importers go abroad to make purchases, the trade commissioners will introduce them to supply houses and agents, put them in touch with interpreters, and assist them in every way possible.

The Canadian International Trade Fair has shown for the second year that organized activity for the encouragement of imports is prominent in Canadian

minds. Fullest facilities are provided for foreign producers to show Canadian buyers a full range of everything likely to find customers here.

It may be said that Canadian banks which maintain foreign branches and agencies are following a healthy plan of assisting importers. They gather trade and credit information, suggest itineraries for importers who wish to travel in search of goods, supply letters of introduction, provide lists of firms which are likely to have the goods sought by the importer, and distribute trade information. Some, like this bank with its 61 foreign branches, supplemented by correspondent banks in every part of the world, have a department organized to provide information gathered from the best sources as a matter of routine or by special request.

An Ancient Custom

Trading between peoples of different nations is not a new thing. Nature has so distributed her bounties of soil, forest, mines, waterflow, fisheries and other resources that every nation can produce some things more easily and cheaply than any other nation. Years of practice have enabled certain nations to develop special skills in manufacture. Men and nations tend to produce the commodities for which they are specially fitted by nature or training.

It follows that every country needs some things which are produced better or more cheaply elsewhere. The supply of corn was the great problem for ancient Athenian statesmen; salt became an early element in international trade in Europe. Sir Leonard Woolley, who was director of an expedition which excavated Ur of the Chaldees, found a bill of lading dated 2048 B.C., for a vessel which had been away on a voyage of two years and returned to its quay at Ur to discharge a cargo of gold, copper ore, valuable hardwoods, fine stones for statues and vases, ivory, and so on.

Four thousand years later our wants have expanded as rapidly as have the facilities for satisfying them.

Countries that were once remote are now neighbours. Many countries, including Canada, have become accustomed to a state of prosperity and material comfort they would be reluctant to give up. This demands a greater exchange of goods than ever before, if happiness, satisfaction and peace are to be achieved.

But, as Professor Lorne T. Morgan, of the University of Toronto, commented in reviewing Dr. Orville J. McDiarmid's book *Commercial Policy in the Canadian Economy*: "While economic sanity is a necessity to the well-being of the post-war world, the mere necessity of it by no means guarantees its appearance."

Common Sense Trade

A common sense formula on trade runs something like this: The stuff we produce as a nation, plus the stuff we import, less the stuff we export, is a measure of our standard of living.

Exports are important principally as a means of obtaining imports. This lesson is being widely taught in the United States. Government officials, newspapers, business people, and trade associations have joined in what might almost be called a crusade to convince Congress and the people that a continuation of the current prosperity is based upon a widening of the trading policy of that country. Leaders of thought recognize that the present unbalanced state of the country's foreign trade cannot persist indefinitely, and that the most favourable thing that could happen to the United States would be a rise in imports. The Department of Commerce has set up a division, like the import section of Canada's Department of Trade and Commerce, to help importers by providing information.

One of the first lessons to learn about foreign trade is that no one outside is compelled to buy Canada's goods, and that we cannot force 400 million bushels of wheat and 700 million pounds of bacon and ham down the throats of our 13 million people at home.

The next lesson is that two elementary principles of internal retail trade apply also to foreign trade: to sell a man anything you must first learn what he wants and then be able to convince him that you can supply it at a reasonable price.

The third is what interests us principally in this article: if you wish to sell to a man or a nation you must buy from that man or nation or otherwise help in making purchasing power available to him. That is an economic axiom. If business and labour and agriculture neglect to encourage imports from abroad they cannot fail to witness a serious decline in exports and therefore in their earning power.

As to the effect within a country of its foreign trade, consider the movie industry in the United States. Great Britain found itself short of dollars, and imposed restrictions on importation of United States films. This spring, film producers looked into the state of their finances and imposed the greatest economy measures ever known to Hollywood. Why? Because, big and all as the United States market is for films, nine out of every ten Hollywood pictures cannot

show a profit on exhibits in the United States alone, and have to depend on foreign business to cover expenses and pay dividends.

Balance of Trade

The ideal situation would probably be a world pool of consumable goods with all nations contributing to it to the fullest extent of their capacity and all free to draw from it according to the value of their contribution.

This is, so far, a Utopian's dream rather than an economist's hope, but there is no reason why more attention should not be paid to certain features of it.

Competition between firms for larger shares of existing markets is a healthy situation contributing to lower prices, better quality and superior service. But competition of one country to sell more abroad than it buys abroad is irrational and fallacious.

In talking about foreign trade, use of the word "surplus" is unfortunate. It leaves the impression, too widely held, that foreign trade consists in getting rid of goods we do not want for our own use. That is putting the cart before the horse. It implies that foreign trade is a device to get rid of a surplus product, whereas the so-called "surplus" was brought into existence because of the demand created by foreign trade.

If we disregard the fact that international trade is the exchange of stuff for stuff we enter the realm of the occult. There's no such place as one where we can sell everything, buy nothing, and continue to live, but some people otherwise certified as sane continue to strive for it.

Foreign trade, if it means anything, means something that is of mutual benefit. All history testifies to the fact that standards of living have risen as goods and services have been exchanged among neighbours.

Foreign trade is not something in which one indulges; one must participate, and we do not yet know of any limit to the benefits which human beings may bestow upon one another by the exchange of the products of the highest exertion of their diligence and skill. The basis of it was put into one of his plays in 425 B.C. by Aristophanes: Think of something of your country's produce that's plentiful down there and scarce up here, and let's exchange.

The natural unit of economic activity used to be the family of the cave-man; today it is not even a city or a state but the entire living generation of mankind. World trade last year totalled \$51 billion, the total exports of all countries, of which Canada's share was \$3,075 million.

Economic Freedom

Reasonable people believe that human energies can best be directed toward the improvement of standards of living by building a world in which there is the greatest possible measure of economic freedom. This was the objective of the proposals agreed upon at Bretton Woods for an international monetary fund and bank for reconstruction and development. It was

the purpose of the Benelux countries — Belgium, Netherlands and Luxembourg — when they agreed to scrap all trade barriers between them. It prompted Switzerland and the Benelux countries to sign an agreement for mutual reduction of customs charges, and France and Italy to agree to form a customs union, and the Eastern and Western European nations to seek a revival of trade between the two areas.

Canada has been one of the chief supporters of efforts to promote multilateral trade, which means free international trade carried on by the unregimented activities of private enterprise.

Active support has been given the various organizations in the commercial field sponsored by the United Nations. Canada was host to the first session of the Food and Agricultural Organization. We participated in the formulation of the Bretton Woods Agreement. Canada is a member of the International Monetary Fund. She was one of the "big three" in the deliberations at Geneva and Havana that resulted respectively in the General Agreement on Tariffs and Trade and the Charter of the International Trade Organization.

All of this is in keeping with the spreading feeling that international trade must be multilateral if mankind is to take intelligent advantage of the opportunities before the world to live a better and happier life.

We cannot achieve permanent stability, let alone improvement, if we try to make the basis of recovery the division of the world into watertight compartments. That kind of world would contain a number of closed economies, each conducting its foreign trade under strict governmental control in accordance with short-term agreements based on planned barter with politically selected countries.

ITO Charter is Practical

The Charter for the International Trade Organization (ITO), tentatively approved about a year ago by the United Nations Conference on Trade and Employment, represents the most ambitious of the many international economic agreements concluded in the last few years.

The Charter is not a head-in-the-clouds dream. It provides a set of standards which will achieve the greatest possible benefits from trade in a world of widely differing economic and political systems, and it provides the mechanism for consultation on common problems of commercial policy. It seeks to substitute negotiation and debate for economic warfare.

More than two-thirds of the world's two billion people live in countries which consider that they are under-developed relative to the industrialized nations of Western Europe and North America. It is part of the ITO function to assist in sound development of economic and industrial resources in these countries.

The Canadian Market

Canada offers a great market to many foreign exporters, but, warned the *Board of Trade Journal* in an article addressed to British manufacturers, it is a

hard and competitive market. First and foremost, says the article, is the need to induce Canadians to buy by taking pains to show them that Britain can offer what they want. The United Kingdom Engineering Mission to Canada last winter found everywhere that the Canadian buyer, "subject always to acceptable price, delivery and service, is more than ready to buy British."

The market is a big one. Consumers' expenditures are now greater than at any other time in Canada's history. Personal expenditure on consumer goods and services climbed from \$3,770 million in 1938 to \$10,000 million in 1948. Labour income rose from \$2,054 million in 1938 to \$7,130 million in 1948.

In keeping with these increases, our purchases abroad went up spectacularly, from \$678 million in 1938 to \$2,637 million in 1948. This table, from the magazine *Foreign Trade*, published by the Department of Trade and Commerce, shows in percentages the distribution of these purchases:

Percentage Distribution of Canadian Imports:

	1938	1948
Commonwealth Countries		
United Kingdom and Europe	17.6	11.4
America.....	3.3	2.0
Africa.....	0.7	1.0
Asia.....	3.5	2.9
Oceania.....	2.4	1.8
Total Commonwealth Countries	27.5	19.1
Foreign Countries		
United States and Possessions	62.7	68.6
Latin America.....	2.4	8.4
Europe.....	5.9	2.7
Other Foreign.....	1.5	1.2
Total Foreign Countries	72.5	80.9

Newfoundland, which joined Canada in confederation this spring, is not included in these figures. That country provides a market for food, clothing, radios, machinery, automobiles, and a wide range of commodities. More than 50 per cent of Newfoundland's \$105 million of imports in 1947-48 went from Canada, while 38 per cent originated in the United States.

Imports from Britain

We brought in \$299 million worth of goods from the United Kingdom last year, an increase of \$110 million over the preceding year, and \$180 million more than in 1938.

There is widespread recognition here of Britain's economic difficulties, and a growing realization of the degree to which her economic recovery is bound up with Canada's own economic future.

In seeking to extend sales in Canada, British manufacturers are sending representatives to scan the market and provide them with information about what Canadians want in the way of styling, quality, and performance. It has been proposed that members in an industry should club together in these fact-finding missions and should be helped by the government. This is a new and imaginative proposal, the success of which is foreshadowed by the good results of the engineering mission and the recent mission of the Wholesale Clothing Manufacturers Federation of Great Britain.

There has been some criticism here of the reduction of British purchases of our farm and forest products. An article by E. H. Gilpin in the *Board of Trade Journal* points out that "as things are in the world, the only way we can pay Canada is by goods and services, and the possibility of an increased volume of our purchases from her inexorably depends upon the increase of her purchases from us."

The British are hopeful of improvement. They call their effort "Operation Canada", and they are organizing meetings throughout the United Kingdom to advise industrial centres of the opportunities here and the needs of the Canadian market. As the leader of the Engineering Mission said: "We came out as a Mission to Canada. We go back as a Mission to Britain."

Imports from the U.S.A.

Canada's imports from the United States totalled \$1,806 million in 1948, compared with \$425 million ten years previously.

This growth is the result of a combination of factors. An article in *Canada Year Book* for 1947 remarked: "From the 1920's on, Canadian preference for United States manufactured consumer goods, or for domestic goods on the United States pattern, has been steadily growing. This growing preference is not unnatural, in view of the increasing growth of United States branch plants in Canada and the exposure of Canadians to United States radio, magazine and national advertising campaigns."

A lesson recently brought to attention in United States publications has validity also in Canada. It is pointed out that while it may be possible that the United States can get along with exporting only 10 per cent of its national production, because of its relative self-sufficiency in resources and its high manufacturing potential, and, therefore, its small need to import, this is not a whole view. Many individual industries depend upon exports for their prosperity: aircraft, cotton, and tobacco to the extent of over 30 per cent. If exports in these industries were to be reduced to 10 per cent, they would be badly depressed.

This is being realized so extensively that exporting firms are organizing drives to encourage importing, thus paralleling the efforts being made through government and world organizations to bring about a healthy exchange of commodities.

The Dollar Shortage

Here then, are the three sides of the triangle: Canada, Great Britain and the United States. Canadian trade with the United Kingdom and the United States used to be of a complementary nature, and was a classic example of the working of a basically sound international division of labour. While Canadian cereals fed Britain, British textiles clothed Canadians; while Canadian products of forest and mine, processed by hydro-electric power, fed the industries of the United States, the coal and iron products of the United States equipped Canadian factories.

The triangle gives Canada a foot in both the sterling and dollar worlds, and she is loath to abandon either interest. We depended upon our sales to Britain to

provide us with enough dollars to pay for our purchases in the United States. Until the recent war, in fact, we went along quite happily, scarcely aware of the deficit we had with the United States.

Today, however, there is a world-wide shortage of dollars, and other countries are unwilling to use with us any of their limited supplies. It becomes necessary, as was pointed out in an article in *Saturday Night*, to accept payment for our goods in the form of goods — "not to the extent of exactly balancing our trade with each country, but at least so that our purchases from countries other than the United States will roughly offset our sales to those countries as a group."

A crisis arose when our reserves of gold and United States dollars fell from \$1,508 million (U.S.) in 1945 through \$1,245 million in 1946 to \$502 million in late 1947. By economic self-discipline in the form of prohibited imports, rationed imports, and restrictions of various kinds, Canada has recovered to the point where reserves totalled \$998 million on December 31, 1948, and \$1,065 million in March this year.

The short-term problem has been met. The ideal long-term cure is restoration of convertibility between sterling and dollars. Meantime it was urged by the Governor of the Bank of Canada in an address at Vancouver in March: "All of us, to the full extent of our power, should guard against the mentality of restriction and contraction, and should seek that greater wealth and greater development which come from enterprises and expansion." One responsibility, he said, is to see that imports from non-dollar countries are encouraged as much as it is possible to do so.

Progress Has Been Made

It is evident that in an imperfect world there are inevitable conflicts between the aims of individuals and nations, and the task of rebuilding a stable world order appears to be impossibly difficult. The obstacles, however, should not be allowed to obscure the progress that has already been made as the result of persistent effort.

One thing needed in every country is to brush aside popular prejudice which blames all the ills of the country on the unpredictable vagaries of strange people in other parts of the world.

This was put neatly by A.G.B. Fisher in his booklet *Economic Self-Sufficiency*, in which he likened such critics to a small child, firmly convinced that, if only everybody else would do exactly what he wanted, the universe would move forward smoothly to its predestined end, the satisfaction of his desires. Tension and unpleasantness arise when he discovers that the world is not made his way.

We cannot rest content that the other countries in the world will come our way. It may be necessary for Canadian importers, so often the forgotten men in our economy, to go out looking more earnestly than ever before for goods which can command a market in Canada. It would be a great contribution to Canada's stability.