



# THE ROYAL BANK OF CANADA

HEAD OFFICE, MONTREAL

September, 1944

**A**T a time when the nations are gladly making plans for peace, it is of the greatest importance to think seriously of international trade. War production has been a wonderful achievement in all the United Nations. Looking beyond it, business enterprise sees no more pressing problem than that of laying plans for utilization of its war-developed capacity to create goods. The ideal sought is fullest employment of the economic resources of all countries, with rising living standards in all countries, and maximum trade between all countries.

The purpose of commerce is to transfer certain commodities from those who do not need them to others who do. Foreign trade is necessary both to sell surpluses and to obtain essential goods not produced locally. It is illogical to speak of any balance of trade as being favourable to a nation, because the cost of imports is exports. The purchases that a country can make are limited by the value of the goods and services it can sell. International trade enables countries and localities to develop the industries best suited to them, and it helps to raise consumption by enabling consumers to take advantage of specialization in economic activities.

To sell a big quantity of exports a country must be prepared to buy a big quantity of import products. Only half of the power of commerce resides within the nation, and the whole business is as effectually ruined by destroying half as by attacking the whole. When the ability of any nation to buy is impaired, it equally involves the seller. A recent pronouncement of the Canadian Chamber of Commerce said: "No nation can afford to lose sight of the fundamental principle that international commerce is an exchange of goods and services for goods and services." Foreign trade is not founded upon selfishness, but upon participation. No country should approach post-war commerce with the idea that it is primarily a measure to avert a depression or create employment. Effective world demand will automatically make full use of the world's manpower and resources, but the basic target is the maximum satisfaction of human needs.

The United Nations are tackling international trade in an open-minded and forward-looking way. They recognize as a first requirement that the nations of the

world must have freedom from fear of war, and this can only be assured through some form of co-operative guarantee. Next need is for commercial stability, so that business can plan confidently for future development. There must be monetary stability and the provision of credit. To set up the functional machinery for all these is the task being undertaken by a dozen agencies. There is no room in such a picture for the isolation attitude of mind, nor for clashes of sectional interest. The world is not merely an aggregate of unrelated units, but is, in effect, a single economic system. It is impossible to shelter internally from world trade fluctuations merely by contracting the range of our economy. Few people who now applaud policies of self-sufficiency would be prepared to return to conditions that surrounded primitive groups which were able to maintain themselves without outside contacts. Their standard of living was low, social gains were slight, spiritual values were practically nil, and there was no education worth the name.

Most business men, and it is business men who have made the closest study of international trade, believe that an attempt to impose economic blockades around Canada would inevitably lower the living standards of the people. They believe government regulation that was necessary in wartime should be sensibly decreased. Government action in peace should be confined to keeping the machinery in good working order, correcting or preventing abuses, coordinating international practices, acting as a channel for the co-operation of exporters whereby contact may be made with prospective importers, and suchlike directional and helpful efforts.

## NEED FOR COMMERCE.

If there are not to be weeds growing in the streets of tomorrow, this is the time to make plans. Canadian manufacturers, who have greatly expanded their production facilities since the war started, realize that domestic markets will not absorb the increased output. Many have ventured into foreign trade as something new, since shortages in other countries have turned orders toward Canada. These producers are properly considering the methods by which they may continue their trading after the war, and their fortune is a matter of concern to everyone in the Dominion. Success would mean an increase in indi-

---

---

# THE ROYAL BANK OF CANADA

---

---

vidual security on the healthiest possible lines—based upon personal prosperity arising out of pay for work done. It would bring lower prices, because large-scale exports would mean large-scale production. The reduction in price would cause increased consumption, with consequent increased employment. If, on the other hand, our exporting industries fail, it will not be only the exporting industries that are hurt; it will be the whole economy.

In outlining to Parliament last month the steps to be taken by Canada in its post-war planning, the Minister of Finance placed "stimulation and expansion of export trade" first. Standards of living and individual prosperity are based upon the nation's pay envelopes. Manufacturers are confronted with the tremendous problem of how they are to retain markets or find new markets to enable them to continue paying wages amounting to \$40 million a week. Part of the answer, at any rate, is in commerce. The dollars resulting from export trade are not just figures in a book, but hard cash. After passing through the hands of the workmen who produce the goods for which it pays, this cash becomes available for expansion, for purchasing foreign goods, and for reducing indebtedness.

As has been mentioned in preceding Letters in this series, Canada is far from being a self-sufficient country. There is a large proportion of unproductive area, there are seasonable handicaps, and, at least up to this war, there were only a few specialized exports. On the prairies, we produce the world's best wheat with less expenditure of labour and capital than nearly any other part of the world; our northern forests are particularly suitable for making newsprint; our mines yield many times as much precious metal as we can use; and our hydro-electric power resources are the envy of the world. On the other side of the ledger, we are short of coal, iron, oil and tin; we cannot produce tropical fruits, cotton and other fibres. The Royal Commission on Dominion Provincial Relations reported in 1940: "Every country could display a list of surplus and deficit resources, but in few would both sides of the balance sheet contain such basically important products in such volume, and in few would the extremes be so great. . . . Because Canada is one of the least self-sufficient countries in the world, her prosperity and her very existence depend on making the most of her own specialized resources, and on trading them as advantageously as possible for her other requirements."

## NATIONAL INCOME.

To maintain a national income on the scale needed to sustain employment and the standard of living to which Canadians have now attained, this country must have a great volume of export trade. Between the two world wars, Canada's exports represented an average 30 to 35 per cent of her national income, while less than 10 per cent of the United States national income accrued from export business.

It is interesting to note the correspondence between export figures and national income. Since the first settlement of Canada, there has been only one period when the size of Canada's income has not kept pace with the size of Canada's exports. The economist, Gilbert Jackson, declares "twelve months of exporting on a large scale and at a profit have always been followed by twelve months of prosperity. The reverse is equally true." There is a great resemblance between the figures showing national income and domestic exports. Changes in the total of exports are followed in the succeeding year by corresponding changes in the national income. This correspondence is remarkably close. Over the 15 years preceding 1940 it was 93 per cent, and over a longer period it was almost 100 per cent.

Canada's periods of greatest prosperity, when standards of living are highest and employment is at its peak, coincide with periods of world prosperity. Mr. Jackson goes so far as to declare: "The relationship between exports and the national income is definite and graduated," and he says that three dollars' worth of exports add just about five dollars to the national income, above the small basic minimum that we could achieve if we traded only with one another inside Canada. The President of the Canadian Federation of Agriculture told a parliamentary committee in July: "Canadian agriculture has been developed on an export basis, with normally the products from one out of three acres in our improved acreage going abroad. Since trade is a two-way proposition, Canada must be prepared to buy goods from those countries which provide a continuous outlet for our exportable agricultural production." The crop years 1937, 1938 and 1939 illustrate Canada's great dependence upon export agricultural markets, relative to the United States. United States' exports of wheat in those years amounted to 12, 11 and 6 per cent of production, while Canada's wheat exports were 52, 46 and 40 per cent of production.

From the standpoint of the whole nation, the purpose of trade is to encourage the full and best use of farms, mines, forests and factories, and because of the factors we have mentioned as being peculiar to Canada there is no country on earth which needs more the fullest co-operation of all its producers and workers. There is no country on earth more willing to take action to promote trade. But more is needed than merely markets for raw materials. If reliance is placed wholly upon low-profit unprocessed goods Canada's purchasing power will be affected. Export markets must be found for manufactured products. Since the beginning of this century Canada has made great industrial strides, and her post-war economy depends largely upon maintaining the advantage and extending it. In the Canada Year Book for 1944 figures are given which show the degree of manu-

---

# THE ROYAL BANK OF CANADA

---

facture entering into Canadian domestic exports for 1942; and these offer an interesting comparison with the 1900 figures:

	per cent of total exports	
	1942	1900
Raw materials.....	12.7	41.5
Partly manufactured.....	20.6	17.7
Fully manufactured.....	66.7	40.8

The broader field of international barter includes services and securities, but the largest factor in Canada's international transactions is commodity export. Canada is a continent of rich natural resources, worth only what we can sell them for. If there is no market, then surpluses cease to be resources, and we shall have to revise our standard of living drastically. There have been tremendous strides toward efficiency in manufacturing. Given the demand, Canadian firms have demonstrated their capacity, their adaptability, and their initiative. A decade of technological development has been crowded into every few months. War's end will find Canada with greater manufacturing facilities, more new materials and more skilled workers than ever before in the country's history.

## GREAT PROBLEMS.

Canada, thirty-first among the nations in respect to population, is today the third trading nation in the world, with exports running at a level considerably in excess of \$3 billion annually. In the 20 years from 1919 to 1939 there was not one when the amount of exports even closely approached one-half of the present figure. This is a splendid record, but it is not placed here for purposes of encouraging complacency. On the contrary, it raises problems of first-rate magnitude. Canada has built her living standard upon the foundation of export trade, but *80 per cent of the export business we are now doing belongs in the category of temporary, abnormal, wartime trade*, with about 20 per cent in the class of normal and permanent trade. This warning was given recently by the Minister of Trade and Commerce. It is upon the basis of the \$600 million a year normal trade that Canada will have to rebuild the whole structure of her export trade. Fortunately, trade in civilian commodities with most former markets, except those occupied by the enemy, has been reasonably well maintained. While the great bulk of exports goes to countries engaged in the war, there are about 50 countries to which we are exporting goods in steady quantities. In 1938, according to the vice-chairman of the Canadian Manufacturers' Association Commercial Intelligence Committee, Canada "had far too many eggs in two baskets, Britain and America, who bought our materials and manufactured goods with little or no sales effort on our part. In a highly competitive world we will have to do much better than that . . ."

Among the external influences which will affect Canadian foreign trade is the industrialization of many countries on a scale approaching Canada's own. India, Australia, China and some South American republics have been literally forced into industrial activity. It is the opinion of traders, however, that this need cause no general decrease in our world trade, but only a change in its character. Industrialization of undeveloped countries does not spell ruin for us. Even before the war the greatest weight of world trade was between industrial countries, the chief factor in increased trade being a rising standard of living.

Those who have been engaged in export trade, as well as newcomers to the trade field, need to give attention to their fences. Some of them furnish the trade commissioners with too meagre information, thus handicapping them in efforts to merchandise Canadian products. Quotations are sometimes thoughtlessly prepared. It is not enough to answer enquiries; business must be sought. If two firms quote on the same goods at substantially the same price and one quotes in dollars per hundred pounds F.O.B. factory, while the other quotes in pounds sterling per 112 pound "hundredweight" c.i.f. United Kingdom Port, the latter is likely to get the British order. The United Kingdom is, ordinarily, a buyer's market, and care must be taken there, as elsewhere, to respect the habits and feelings of the prospective customer.

## PROSPECTIVE MARKETS.

As we remarked earlier, trade with the United Kingdom and the United States was of supreme importance to Canada before the war. The total trade between the United States and Canada was greater than the total trade between any other two countries on the face of the earth. In 1943 Canada sent 34 per cent of her exports to the United Kingdom and 39 per cent to the United States. Canada's trade with both countries is of far greater importance to her than their trade with Canada is to them. Canadian exports to these countries were, according to the Rowell-Sirois Commission, between \$30 and \$40 per capita, as compared with their exports to Canada of between \$2.50 and \$4 per capita. In a depression, both the United Kingdom and the United States can look to some important increases in the real value of their exports and of their other income from abroad to soften the blow, but Canada finds the impact of depression intensified by the fall in the real purchasing power of the bulk of her exports.

America south of the United States is a relatively new field for Canadian trade. Our exports to ten Latin American countries climbed from \$19 million in 1939 to \$25 million in 1943. Canada has an advantage over the United States in dealing with Central and South American countries, in that she is less self-sufficient and can therefore import a more diversified list of products.

---

---

# THE ROYAL BANK OF CANADA

---

---

India, as was pointed out in this Letter last December, holds out prospect of business opportunity which should gladden the hearts of ambitious producers and exporters. Our two economies are complementary. India offers many commodities not produced in Canada, while we can ship to India a long list of consumer goods to meet the demands of its 400 million inhabitants.

How are such opportunities to be developed? Many agencies, including the Federal and Provincial Governments, manufacturers' and producers' associations, co-operatives, financial institutions, and a host of others, are at work gathering information. No surface analysis will suffice the exporter who takes a long view of his efforts; there must be keen analytical studies, intelligent evaluation, and favourable public relations. Someone must study the customs, manners, habits, buying power and living conditions of the prospective customer country. Someone needs to know about distribution and methods of selling. There needs to be education about Canada, as well as about the products of Canada.

## HELPFUL AGENCIES.

Foreign traders have for 50 years looked to the Department of Trade and Commerce as their government source for current and detailed information relating to international trade. The department supplies trade statistics, market surveys, names of selling outlets and sources of raw materials, information on credit, collection and exchange, tariffs, laws, prevailing trade practices, competition, buying power, selling methods, and everything else that enters into the building up and maintaining of foreign trade connections. The department's Commercial Intelligence Service, expanded this year, has headquarters at Ottawa and a corps of trade commissioners stationed abroad. These commissioners make periodic reports on conditions in their fields, telling of trade and financial developments, variations in markets, and opportunities for Canadian products, and they secure and forward to Ottawa specific enquiries for Canadian goods. Today's business ambassador is no tea-party lion. About his own country he needs to know the most up-to-date facts concerning business development, results of research, and qualities and quantities of natural and manufactured products. About the country to which he is accredited he needs to know not only the requirements but the desires and peculiarities of demand. He must appraise the commercial trend, to advise producers of speculative or perishable goods when and whether to forward large consignments. He requires the ability and the staff to tell producers authoritatively and exactly what is wanted in the market he represents. Manu-

facturers regard the trade commissioner service as an essential complement to their own export departments. Many of the commissioners are packing their bags for a return to formerly occupied countries, where they will be of great service in the reconstruction period, not only to Canadian exporters but to the government, re-establishment agencies, and the newly released countries. Much information gathered by all branches of the department is published in the weekly Commercial Intelligence Journal.

Outside of government organizations, there are associations which represent commercial interests directly. The Canadian Manufacturers' Association has had as one of its objectives since 1871 the promotion of Canadian industries and the furtherance of the interests of manufacturers and exporters. The Chamber of Commerce has furnished a common meeting-ground for those interested in the well-being of commerce with other countries. The recently-organized Exporters' Association has done useful work in several fields, particularly in bringing exporters together to take steps in their own behalf, instead of relying altogether on government agencies. The Canadian chartered banks have connections in all countries in the world, with facilities to take care of the mechanics of financing external trade.

At a time when Canada is faced with a greater number of imponderables than ever in her history, it is well to ask whether everything possible is being done to prepare for the most important day the modern world will experience, V Day. Is Canadian industry fully prepared for the possibilities that will open up—prepared in vision, in expert knowledge, in organization? Though Canadian goods are second to none in quality, manufacturers have been too slow at pushing them in the world's markets, in the judgment of a Venezuelan business man who visited Montreal this summer. They fail to plan their targets, but settle on what the R.C.A.F. calls "targets of opportunity". That is not the kind of offensive which wins battles. Haphazard and sporadic efforts are useless. Planning must be on a permanent, long-range basis. And it must see obligations as well as opportunities. Once foreign trade has been solicited, the exporter should be prepared to make prompt deliveries of thoroughly dependable goods offering good value. Development of foreign trade requires energy, imagination and courage. These are virtues of private enterprise, and in the years which follow the peace private enterprise must display all the vision, co-operation and initiative of which it is capable. There can be no substitute for the creative spirit of personal initiative acting with due regard to the public good and free from cumbersome restrictions.