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CANADA'S TRADE POLICY AND THE WAR

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CANADA'S TRADE POLICY AND THE WAR

CANADA'S DEPENDENCE ON TRADE

SINCE Canada's economy depends heavily upon foreign trade, the trade policy developed by the Government is bound to be of paramount importance. According to the estimates of the Bank of Nova Scotia, the export of goods and services has accounted for between 23 per cent. and 35 per cent. of our national income from 1927 to 1937. The higher percentages refer to more recent years, reflecting the growing importance of tourist trade to Canada. While trade policy is unlikely to affect this item, it is of vital importance in Canada's payments to the United States and, therefore, its variations will have an indirect bearing upon future trade policies. Within the limits of this pamphlet, however, it is possible to consider only our trade in commodities.

Canada is still dependent for the bulk of her exports on relatively few commodities which are shipped either in their raw form or in a semi-processed condition. Of the twenty leading exports only automobiles are fully manufactured products. As a result, Canadian trade is subject to violent fluctuations, because the prices of raw or semi-processed materials are highly sensitive to changing world conditions. In some respects, therefore, the Canadian economy is still not far advanced from the colonial stage, although every year the proportion of fully manufactured goods for export has increased somewhat.

Canada's economy is further exposed by her reliance upon two markets, the United States and Great Britain. These countries in time of peace usually take from 75 per cent. to 80 per cent. of our exports, divided almost equally between them. Furthermore, they produce between them approximately the same percentage of Canada's imports, but the balance here is tipped heavily in favour of the United States which usually supplies from 55 per cent. to 60 per cent. of our imports, whereas Great Britain supplies only about 20 per cent. Thus, a business recession of any importance in either country will be immediately reflected in Canada. On the other hand, in war time there are decided advantages in our economic connection with Britain and the United States. As long as trade routes can be kept open to Great Britain and business activity remains at profitable levels in the United States, Canadian exports for the duration will not suffer greatly; and because the bulk of our imports originates in the United States, supplies of vital materials are not likely to be halted. Normally, with free exchange markets Canada's heavy imports from the United States can be paid for without great difficulty; for example, by transferring money received from Britain for Canadian exports. Under war conditions, however, with exchange markets absolutely controlled, this cannot be done and Canada is likely to encounter real difficulties in paying the United States for goods.

Relying so heavily upon foreign trade for her economic well-being, Canada has been vitally interested in obtaining as much free trade in the world as possible. Unfortunately, since the first World War, and especially during the last decade, protection has become a fetish, and world trade has suffered tremendously. The effects of this development upon Canada can be seen in the difficulties we have had in selling our wheat, difficulties which have resulted from attempts to achieve autarchy in Europe; further undesirable effects are bound to occur as world trade diminishes. Canada has been especially injured by increased tariff walls erected around her two chief markets, the United States and Great Britain. Throughout Canadian history there has been a struggle between the proponents of greater freedom of trade and of protection; the balance has shifted from one side to the other at intervals, but in the main Canada has been a free-trade country, for our leaders have realized that excessive protection works to Canada's detriment.

Under conditions of modern warfare, when a nation's whole economy, and especially her financial structure, must come under strict control, the restrictive trade policies, used ordinarily by totalitarian states, are intensified and spread even in free democratic countries. The developments of the war up to date have, in increasing our trade, been warping it out of accustomed channels. Yet the increase of export trade as a result of war demand should not be allowed to obscure fundamental problems which are developing. As a result of the war, Canada will probably be faced with a new type of economic world with much governmental control of trade. Let us see where she is likely to stand in such a world, by reviewing her economic policies of recent years.

The Canadian Tariff Structure

The Canadian tariff is a three-decked creation which results from strenuous efforts to maintain and expand trade relations within the Empire. The first broad category includes the British preferential rates which cover specified goods from most British countries if they are shipped direct to Canada. A sub-division consists of special rates, lower than the ordinary British preferential scale, on specific goods. These rates are arrived at by agreement with Empire countries. The second category takes in the Intermediate rates which cover direct imports from British countries, of goods which do not enjoy the British preferential rate, or from other countries enjoying the intermediate concession. There is a sub-division here, for non-British countries by agreement may be granted special rates lower than the Intermediate tariffs. The third class is the General tariff which is levied on imports not covered by preferential or intermediate rates. In all cases there are provisions for drawbacks of duty on imports of semi-processed goods, designed to put Canadian finishing and assembly plants on a competitive basis with foreign producers. Although it is hard to estimate extent or effectiveness, an element of protection, which illustrates the principle of compromise in Canadian trade policies, exists here.

British preferential rates were once given to almost all countries in the Empire as a matter of course without asking for reciprocal concessions; now they are used for bargaining purposes when trade agreements are under consideration. From the beginning, a chief motive behind Imperial preference has apparently been political, the maintenance of economic interdependence within the Empire, sometimes in the face of economic realities which might otherwise lead to a different alignment. It may be added that support for British preference has also resulted from resentment at what appeared to be unfair and capricious upward revisions in American tariff rates.

The granting of British preferential rates does not always mean that tariffs have been reduced or trade made freer. On many occasions the only result has been an increase in General and Intermediate tariff rates on items affected, so that, while Empire producers achieve a preferred status, Canadian industry, if anything, enjoys an even greater measure of protection. In such cases there is a net loss to the Canadian consumer, even though there may be an appreciable gain for Empire producers. On the other hand, preferences granted to Canada may mean little or nothing because of competition from other parts of the Empire producing similar goods. Also, while competition may be decreased in Empire markets, Imperial preference may result in even greater competition in the markets of non-British countries, since countries shut out by the Imperial preference must concentrate on other markets, which may have been important to Canada.

The Intermediate tariff is a bargaining measure offered chiefly to non-British countries for a *quid pro quo*. Tariff rates lower than the Intermediate may be granted for specific commodities from another country if it is the main source of the goods in question. Since the same concession frequently applies to Canadian products, this type of bargaining has been of considerable use in reducing tariffs.

ADMINISTRATIVE CONTROL OF TRADE: THE TARIFF BOARD

To avoid competition arising out of "unfair" trade practices such as dumping and what is called "exchange dumping," wide powers were in the past given to administrative agencies to supplement tariff provisions. If it was suspected that foreign imports were being sold in Canada at lower prices than they were sold abroad, the Minister of National Revenue, or customs officials, were empowered to make a "fair market valuation" which, plus a "reasonable advance," would be used to estimate the duty to be collected. Difficulties were bound to arise over interpretation of the terms "fair market valuation" and "reasonable advance"; it was often claimed with considerable justification that these estimates were placed so high that protection of Canadian producers was thereby made excessive. In certain cases a fixed valuation was laid down for customs purposes, but this practice had the defect of being inflexible, depriving foreign producers of the competitive benefits of any natural reduction in their prices. A third type of administrative control was concerned with "exchange dumping." Whenever a foreign currency was considerably depreciated, customs officials could value imports from that country at a "fair rate of exchange," usually the rate accepted before depreciation took place. This action effectively removed any value which foreigners might expect to derive from depreciation of their exchanges. Most of these arbitrary powers, however, are now either in abeyance or are fixed by trade agreements so as to prevent further discrimination against foreign imports.

The Tariff Board was set up later to ensure that subsequent changes in Canadian tariffs would be made on a well-ordered and scientific basis. The Board studies proposed tariff changes and their likely effects upon Canadian producers. In practice it probably cannot bring to bear a completely "scientific" approach to tariff changes, but it has largely removed the element of pressure from interested parties upon those who design tariffs and it has publicized requests for tariff revisions. A non-partisan objective body like the Tariff Board is likely to be an improvement over the earlier arbitrary type of control exercised by customs authorities described above. Except in times of extreme emergency, the latter type of control has little justification; certainly it is violently objected to by other nations and apparently at times it was used unfairly.

LIMITS OF COMMERCIAL POLICY

Although Canadian trade policies have been designed to foster export markets as far as possible, the limits of commercial policy appear when attempts are made to ameliorate the condition of producers who face a chronic condition of oversupply combined with steadily shrinking world markets. Let us take the best example, the wheat situation in Canada. Since the first Great War, and especially since the depression, the shrinkage of European markets seems to be a permanent condition. Governmental subsidies have fostered wheat production in Europe on an uneconomic basis; to some extent increase of protection in Canada and development of Imperial preference have hindered maintenance and growth of trade with European countries. As a result, competing wheat producers have increasingly taken over markets which were formerly open to Canada. Let us look a little more closely at Canada's policy during this period.

OTTAWA AGREEMENTS, 1932

In common with most countries, Canada raised tariffs extensively after the depression in an effort to maintain at least the home market. This increase was not enough to take care of Canadian economic problems, and since some extension of trade had to be made, Imperial preference, hitherto established in a haphazard fashion, seemed a logical step. Its establishment on a large scale was accomplished by the Ottawa Agreements, drafted by Great Britain and all the Dominions. By these Canada obtained definite trade advantages in the United Kingdom, at the expense of other countries, notably the United States. Yet these concessions could not be regarded as complete compensation to Canada for loss of the American market which resulted from the Smoot-Hawley tariff of 1930. A certain amount of Canadian trade was diverted from the United States to Great Britain and to other British Dominions. On the other hand imposition by Canada of exchange duties made almost valueless the advantage which Great Britain would otherwise have enjoyed through depreciation of the pound.

TRADE AGREEMENTS WITH THE UNITED STATES, 1935 AND 1938

Britain's early recovery from the depression made the British market look favourable, since the wheat preference offered Canada a life-line when other markets were shrinking steadily. Experience showed, however, that the American market was at least equally important and that even the most vigorous policy of Imperial preference could scarcely be a full solution for Canada's trading difficulties. Therefore, at the first opportunity, a trade agreement with the United States was concluded in 1935. Canadian concessions involved considerable reductions in protection, even though the treaty was relatively limited. Canada received advantages chiefly in materials of which she was the chief source of American supply. In some cases, Canadian exports to the United States were put on a quota basis, a higher rate of tariff to come into operation if the quota should be exceeded. Although this agreement affected only a small percentage of the American market, it was of distinct importance to Canadian producers. Any adverse effects upon specific producers in either country were little noticed as the national income in both countries expanded. In 1938 this agreement was extended by a triangular trade agreement which included the United Kingdom. Further benefits were extended to all three participants; Canada especially was able to make wide concessions as a result of being released by Great Britain from some of her Imperial preference commitments. By this time it was clear that the trends established by the Smoot-Hawley and Bennett tariffs and the Ottawa agreements had been changed.

Trade Movements During the War

As the result of war it was expected that Canadian trade would increase, that imports would rise sharply from her nearest and most important source of supply, the United States, and that exports would greatly increase to the Allied belligerents. This expectation only partially came true in the early months of the war. In September, 1939, Canada had a large reserve of unemployed workers, and her position as a producer of raw materials made it reasonable to suppose that the Allies would draw upon her heavily to augment their own production. It was expected also that a considerable increase in the manufacture of arms and munitions would ensue because of Canada's relative safety from attack. Actually, however, the decision to wage a long-term war resulted merely in an average increase of Canadian exports to the Allies. The figures in Table I show this development clearly.

TABLE I

CANADIAN IMPORTS

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
From United Kingdom................	$116,702,000	$142,319,000	$25,617,000	21.9
From United States.....................	419,697,000	680,278,000	260,581,000	62.1
From all others............................	133,279,000	169,124,000	35,845,000	26.9
TOTAL..................	$669,678,000	$991,721,000	$322,043,000	48.1

CANADIAN EXPORTS

(Excluding non-monetary gold)

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
To United Kingdom.....................	$341,368,000	$450,149,000	$108,781,000	31.9
To United States..........................	310,086,000	461,354,000	151,268,000	48.8
To all others................................	224,898,000	225,038,000	140,000	.6
Total...	$876,352,000	$1,136,541,000	$260,189,000	29.7

Imports from the United Kingdom did not increase very much, because of the latter's preoccupation with production for war. Total imports increased 48.1 per cent., whereas imports from the United Kingdom rose only 21.9 per cent. On the other hand, because of availability of supplies from the United States the imports from that country increased 62.1 per cent. As all figures in Table I are expressed in terms of Canadian dollars, some allowance must be made for the higher quotation of the American dollar and depreciation of the pound sterling. Although total Canadian exports increased 29.7 per cent., exports to the United Kingdom were only slightly above this average. Exports to the United States increased 48.8 per cent., and those to all other countries rose only .6 per cent.

Britain's war effort has speeded up greatly since May, 1940, and her imports from Canada are increasing steadily. Now that the British are releasing their patents, exports of Canadian manufactured war goods are more important. Furthermore, the existence of boom conditions in the United States has increased Canadian exports, and as the armament programme gathers momentum in that country, our American trade will increase further. Reliance on the United States for a large percentage of commodities which are necessary for our own war production will, however, continue our unfavourable balance of commodity trade with that country and aggravate problems of paying for American goods we need. The increased imports from all other countries, as shown in Table I, have resulted from Canadian reliance upon some vital tropical products such as sugar, tin or rubber. This trend will probably be maintained. Reduction of Canadian exports to these countries comes partly from German conquests and partly as a result of recent alterations in Imperial trade in a manner unfavourable to Canada.

Throughout this period Canada has maintained her obligations under existing trade treaties. In the recent budget, increase of customs duties levied for the purpose of maintaining our foreign exchange position were waived for all Empire countries. On the other hand, other Empire countries have either discriminated against Canada or, in the case of Great Britain, have entered upon new types of trade agreements incompatible with Imperial preference. These actions have been taken because Canada must, because of her economic ties to the United States, maintain the value of her currency outside the sterling bloc. Canada's position, therefore, is bound to raise difficulties of transfer between herself and other Empire countries which maintain the sterling standard. The result is apparently unavoidable during the war, but it is none-the-less somewhat detrimental to Canadian trade.

CANADIAN TRADE WITH GREAT BRITAIN

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The figures given in Table II cover roughly 70 per cent. of Canadian trade with Great Britain and they show clearly the trends which may be expected to persist and increase throughout the war. Imports of consumption goods from Great Britain, such as alcoholic beverages, have declined or have increased only slightly. On the other hand, imports of textile and iron and steel products are likely to be maintained, because of Imperial preference and because of the relatively specialized nature of British production in these lines. Reduction of coal and coke imports is a result of shipping difficulties and of inadequate planning of British production; when organization is improved, these items should show increases. Canadian exports of non-essential goods, such as fruits, have fallen off badly and are bound to remain depressed for the duration of the war. On the other hand, all the other items listed should show increases in future, while the volume of manufactured goods exported to Great Britain should rise sharply. Actually the greatly increased tempo in Britain since May, 1940, means an even greater increase in Canada's trade to Britain in the foreseeable future.

TABLE II

CANADIAN TRADE WITH GREAT BRITAIN

IMPORTS

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
Alcoholic beverages	$4,821,000	$3,429,000	—$1,392,000	—28.8
Cotton products	9,503,000	10,976,000	1,473,000	15.5
Flax, hemp and jute products	3,560,000	5,090,000	1,530,000	42.9
Wool and wool products	20,416,000	29,662,000	9,246,000	45.3
Iron and iron products	18,634,000	21,709,000	3,075,000	16.5
Rolling mill products	6,645,000	7,601,000	956,000	14.4
Machinery	3,236,000	4,345,000	1,109,000	34.2
Clay and its products	3,605,000	4,791,000	1,186,000	32.9
Coal, coke, etc	7,048,000	5,968,000	—1,080,000	—15.3
Other imports	39,234,000	48,748,000	9,514,000	24.2
Total Imports	$116,702,000	$142,319,000	$25,617,000	21.9

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EXPORTS

(Excluding non-monetary gold)

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
Fruits	$11,634,000	$8,641,000	—$2,993,000	—25.7
Vegetables	6,131,000	7,477,000	1,346,000	21.9
Wheat	48,246,000	72,511,000	24,265,000	50.3
Wheat flour	7,705,000	16,317,000	8,612,000	111.8
Fish	6,743,000	9,552,000	2,809,000	41.7
Meats	31,026,000	53,102,000	22,076,000	71.2
Milk and its products	14,754,000	15,658,000	904,000	.61
Planks and boards	23,638,000	31,785,000	8,147,000	34.5
Non-ferrous metals and their products	88,665,000	93,983,000	5,318,000	5.9
Other exports	102,826,000	141,123,000	38,297,000	37.2
Total Exports	$341,368,000	$450,149,000	$108,781,000	31.9

The greater relative increase of Canadian exports to Great Britain has given rise to increased lack of balance in the Canadian-British payment account. Britain is buying from us much more than we are buying from her. It is unlikely that imports from Great Britain will increase appreciably, because of Great Britain's war needs and because the Canadian consumers' tastes have long been accustomed to American goods. It is unlikely, moreover, that Great Britain will pay for much of her Canadian imports by transfer of American exchange or gold. Therefore, repatriation of Canadian securities held in Great Britain, the only means of payment left, should increase in the future as Canadian exports to Britain rise. If the war continues for a long time, a large share of British holdings in Canada will have been transferred to Canada, with the result that Great Britain will no longer be in a position to import extensively from this country unless she can increase her exports to us or obtain loans. For the time being payments by the United Kingdom to Canada for purchases can be handled, but the solution entails the necessity of making sweeping adjustments later.

A further result of pressing exchange problems in Great Britain has been the development of trade and exchange agreements resembling the controlled practices of totalitarian states. Bilateral exchange and trade-clearing treaties have been concluded with Spain, Sweden and the Argentine and other countries, and although the first two are virtually in abeyance as a result of German victories, this type of agreement may have the effect of interfering with Canadian exports to Great Britain because of the competitive nature of production in some of these countries. If this form of agreement is to be extended (as seems likely if war is to continue for some time and the British problem of transfer of exchange becomes increasingly acute) the Canadian primary producer will face much stiffer competition. An individual producer is at a disadvantage in competing with or bargaining with a government-controlled economy. Moreover, there is no certainty that post-war trade will shift back to its former channels. Therefore, the result to Canadian producers of present developments may be unfavourable unless Canada, to meet the action of her competitors, develops the same type of controls and technique in trading with Great Britain.

Canadian Trade With The United States

The items listed in Table III, covering about 65 per cent. of Canadian trade with the United States, make evident the effects of war economy upon Canadian imports. It is unlikely that the recent 10 per cent. increase in our customs duties will have much effect on the items listed; the increase is more likely to lessen imports of luxuries and non-essential products, which are not listed below. On the other hand, Canadian exports to the United States should be maintained and increased as the American armament boom gets under way and as American imports from that part of Europe under German domination are shut off, during the war.

TABLE III

CANADIAN TRADE WITH THE UNITED STATES

IMPORTS

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
Cotton and its products	$16,181,000	$37,866,000	$21,685,000	134.0
Iron and its products	131,180,000	235,087,000	103,907,000	79.2
Electric apparatus	10,175,000	16,703,000	6,528,000	64.2
Coal	27,666,000	43,676,000	16,010,000	57.9
Petroleum products	39,678,000	46,757,000	7,079,000	17.8
Chemicals and allied products	23,159,000	41,518,000	18,359,000	79.3
Other Imports	171,658,000	258,671,000	87,013,000	44.9
Total imports	$419,697,000	$680,278,000	$260,581,000	62.1

EXPORTS

(Excluding non-monetary gold)

	Sept., 1938-Aug., 1939	Sept., 1939-Aug., 1940	Increase ($)	Increase (%)
Wheat and flour	$17,113,000	$61,806,000	$44,693,000	261.2
Planks and boards	14,271,000	19,336,000	5,065,000	35.5
Wood pulp	24,012,000	41,491,000	17,479,000	72.8
Newsprint	91,906,000	116,497,000	24,591,000	26.7
Non-ferrous metals and their products	39,404,000	63,139,000	23,735,000	60.2
Other exports	118,504,000	155,275,000	36,771,000	31.0
Total exports	$305,210,000	$457,544,000	$152,334,000	49.9

It is obvious that Canadian trade with the United States has become more unbalanced, a trend which is likely to increase in future and which will give rise to greater difficulties of payment on our part. These difficulties have already brought about the increase in customs duties mentioned above and the restriction of Canadian tourist expenditures in the United States. The other methods of obtaining money for our payments to the United States are gold exports from Canada, American tourist expenditures in Canada, and sales of Canadian-held American securities—a last-ditch measure. It can be assumed that all gold produced is being exported to the United States, but this will barely cover Canadian payments of interest on our debts in the United States. Since American tourist receipts have been disappointing, the problem has become more difficult. It would be unwise, however, to seek a solution by reducing American imports to an excessive degree. While protectionist sentiment in the United States is still strong it is too much to hope that benefits under the Canadian-American trade treaty could be increased. As far as possible the American trade treaty should be maintained because it is likely that the United States will be the only large market in good condition after the war.

Canadian Trade With All Other Countries

Trade with countries other than the United States and the United Kingdom constitutes on the average from 20 per cent. to 25 per cent. of the Canadian total. About 70 per cent. of Canada's exports to these other countries has gone to two groups: 25 per cent. to European countries at present under German domination, and 45 per cent. to other Empire countries.

European countries overrun by Germany absorbed chiefly raw materials and agricultural products. It may be assumed that once the British blockade is lifted a certain amount of this trade will return, but it is unlikely to be on a profitable basis until the economic prosperity of these countries is restored. If they remain under German domination, the case for developing Canadian bilateral trade agreements may be strengthened. A partial offset, however, to loss of these markets is the removal of much competition, especially in the United States, for a wide range of Canadian articles, particularly wood pulp and newsprint. This gain, however, has not equalled the losses incurred.

Since the establishment of war-time exchange controls Canada has been, in a measure, isolated from the Empire economically. The need of countries in the sterling bloc to conserve exchange has led to their classing the Canadian dollar as a foreign currency and subjecting it to all the disabilities occasioned thereby. As a result, importers in Empire countries other than Great Britain must obtain licences to procure Canadian goods. Since about 85 per cent. of Canadian exports to these countries consists of manufactured and semi-manufactured articles, loss or reduction of such markets further increases our dangerous dependence on exports of raw materials and agricultural products.

To conserve foreign exchange Australia has taken direct action to reduce certain Canadian imports—although total imports from Canada have increased. There is no certainty that Australia will resume importing from Canada when war ends. Protectionist sentiment in that country has been so strong that this "temporary" move may be translated into permanent policy. Other Empire countries, such as the Straits Settlements, have taken steps to see that Canadian imports will not increase above the last pre-war year. In this case, Canadian producers are losing potential markets, but the loss is likely to be real enough, as the Straits Settlements should experience a boom as war activity intensifies the demand for their tin and rubber. Moreover, there will be a loss to inhabitants of that country because it is most unlikely that British or other Empire producers can fill their increased demands as well as Canada can. Without going to the same lengths still other Empire countries have, for obvious reasons, made it a settled policy to order from Great Britain rather than from Canada when it is possible to do so. In India, for example, government and army contracts for automobile products have gone to Great Britain rather than to Canada.

If these moves are to be only a temporary result of war conditions, small harm will have been done to Canadian exports in the long run, because of present increased demand elsewhere. It is possible, however, that a return to the old basis of Imperial preference will prove difficult and that new agreements will be necessary in the post-war period to re-establish Canadian trade with Empire countries on a sound basis.

The tripartite monetary agreement between Great Britain, the United States and France, and the trade treaties between Great Britain, the United States and Canada were steps toward a sensible evolution of world trade and financial policies. They were developed at a time when world trade was increasingly being put in a straight-jacket by quotas, Imperial preference, and bilateral trading and payment agreements. It was hoped that these might diminish in importance, but the war has accelerated their extension. The implications are of the utmost importance to a country as dependent upon foreign trade as Canada, and future trade policies must be framed in the knowledge that they may well persist. Unfortunately the conflict between free trade and controlled export methods is obscured by the present volume of export trade to the belligerents, which, since it is only a temporary factor, will make later adjustments all the more difficult.

The United Kingdom is bound to face extreme fiscal difficulties when war ends, and its potentialities as a consuming nation will be sharply reduced under peace-time conditions for many years. The same will apply to countries overrun by Germany when they are released from that domination; an extensive degree of control will be necessary even when liberty is restored; should they remain conquered, their trade will be entirely controlled. In any event, therefore, non-European countries, and especially those outside the sterling area such as Canada, which lack binding trade or exchange-clearing agreements, will tend more and more to suffer from the competiton of alternative controlled sources of supply from countries which have developed these techniques. Thus, if Canada wishes to maintain her European markets she may be compelled to make use of new practices to obtain assured outlets for her products.

These controls may be established independently or in co-operation with other nations. Our trade will be heavily tied to Britain and we will be to some extent bound by her practices, which already include governmental bargaining and rigid exchange controls which will probably not end with the end of the war. A supplementary means of meeting economic competition would be the co-operation of producers in the western hemisphere so that relative bargaining powers would be more nearly equal. It may be that some or all of the South American countries will be intransigent if they are asked to develop such a plan. Canada, however, might find considerable advantage in such an alignment. Thus we now have a great surplus of wheat in Canada. Other American nations, notably the United States and the Argentine, also have surpluses of wheat. Co-operation would prevent the competition and under-bidding attempts to sell these surpluses which would come, especially if we should be selling to a controlled economy. Our producers would be ensured of greater bargaining power in world markets, and all the financial strength of the United States would be available to back up their efforts.

Finally, an alternative to either of these two plans would be an attempt to carry on with free trade on the pre-war basis. It seems, however, that such a return to the past may be doomed to inevitable failure. The old pre-war arguments about free trade or protection in Canada have become relatively academic. Future trade policy must of necessity be concerned with securing the maximum amount of exports under the most favourable conditions to Canada, until our economy can be slowly and painfully adjusted from the present preoccupation with war effort to the new conditions which will accompany peace. With the present trend everywhere to government control of trade, and the formation of large blocs for bargaining purposes, Canada may well be compelled to maintain controls herself and to seek the strongest and most natural economic allies she can find.